Thesis

By

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UNIVERSITY OF IBADAN

CORPORATE GOVERNANCE AND DIVIDEND PAYOUTS IN NIGERIA

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CORPORATE GOVERNANCE AND DIVIDEND PAYOUTS IN NIGERIA

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ABSTRACT

Corporate governance (CG) safeguards shareholders' portfolios and ensures optimal returns in terms of dividend payouts (DPs) on investment. The association between CG and DPs could be significant in relation to risk exposure, operational and financing activities across firms and sectors. Also, the differential dividend payment between large and small firms might be due to economies of scale enjoyed by large firms. The relationship between CG and DPs has been well researched, however; the role of firm size and sectoral classification on these two has not been given adequate consideration in the literature. This study, therefore, examined the moderating effects of firm size and sectoral classification of CG on DPs in Nigeria.

Agency theory provided the basis for the articulation of the model which captured the effects of CG on DPs. Governance indicators (number of independent directors, institutional investors, board size and managerial shareholding) and dividend per share of 101 non-financial listed companies in Nigeria from 1995-2012 were compiled from annual reports and statements of accounts of the firms; as well as various issues of the Nigerian Stock Exchange Factbook. The analysis was conducted at aggregate, size and sectoral levels. The firms were categorised into small (38) and large (63) based on their total assets. A sample was taken from agriculture (6), automobile (6), building (8), brewery (6), chemical/paints (9), conglomerates (9), construction (6), food and beverages, (17), healthcare (11), industrial/domestic products (10), petroleum (9) and printing/publishing (4) sub-sectors. The system generalised method of moments estimation technique that included both level and difference equations was employed. It accommodates firm level characteristics and addresses autocorrelation bias. Diagnostic

tests were carried out to ascertain the robustness of the parameter estimates. All the estimates were validated at p = 0.05.

A one percent increase in the number of independent directors and shareholding of institutional investors generated 68.0% and 0.9% increase in DPs respectively. The DPs rose by 10.7%, 8.0% and 0.05% given a percentage increase in profits after tax, gross earnings and previous dividend, respectively. Conversely, DPs declined by a 23.0% with a one percent increase in managerial shareholding. The relationship between CG and DPs was positive in large firms and negative in small firms. This relationship was positive in only conglomerate (18.3%), building materials (5.01%), petroleum and marketing (3.8%), brewery (2.9%), food and beverages (1.09%) and automobile and tyre (0.22%) sub-sectors respectively, while it is negative in healthcare (-0.04%), industrial and domestic products (-0.11%), chemical and paints (-0.11%), printing and publishing (-0.5%), construction (-2.8%) and agriculture (-7.01%) sub-sectors respectively.

Corporate governance influence on dividend payouts differed by size of firm and sectors of operation. More independent directors should be on the boards of corporate firms and the proportion of institutional shareholding should also be increased to improve monitoring.

Keywords: Corporate governance, Dividend payouts, Agency theory, Economies of scale.

Word count: 494

DEDICATION

This doctoral thesis is dedicated to:

The Almighty GOD, for His creative, redemptive power, sustaining grace and mercy;

JESUS CHRIST, my **REDEEMER, CAPTAIN** of my

Salvation; and **HOLY SPIRIT**, my senior **PARTNER** in progress.

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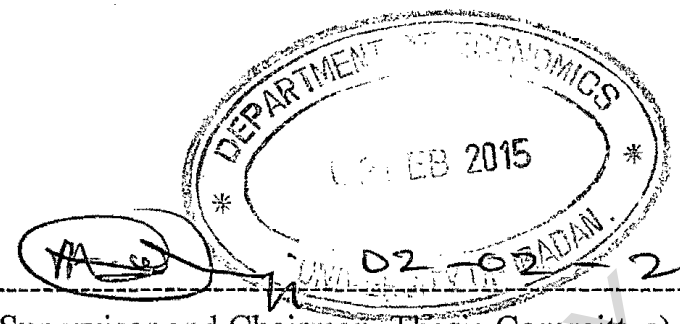
Anthonia Taye Odeleye

CERTIFICATION

I certify that this work was carried out by **Anthonia Taye Odeleye** in the Departmen Economics, Faculty of the Social Sciences, University of Ibadan, Ibadan, Nigeria.



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LIST OF ABBREVIATIONS

CG:	Corporate governance
DPs:	Dividend payouts
BS:	Board size
INDDIR:	Independent directors
INST:	Institutional investors
DIRS:	Directors' shareholding
PAT:	Profits after tax
GEN:	Gross earnings
NSE:	Nigerian Stock Exchange
SEC:	Securities and Exchange Commission
CAC:	Corporate Affairs Commission
AR:	Autoregressive
Diff –GMM:	Difference Generalised method of moments
SYS-GMM:	System Generalised method of moments
FE:	Fixed Effect
RE:	Random effect
DIV:	Dividend per share
SZ:	Size of firms
OLS:	Ordinary Least Square

CHAPTER ONE

INTRODUCTION

1.0 : Preamble

Corporate governance refers to how a corporate entity exercises its authority in the management of its total portfolio of socioeconomic resources with the aim of increasing shareholders' stock value and safeguarding the interests of other stakeholders in the context of its corporate mission (Dozie, 2003). Dayton (1984) views corporate governance as the processes, structures and relationships through which the Board of directors oversees what the executives do. He further states that it is what the executives do to define and achieve the objectives of the company. Oyediran (2003) posits that corporate governance is the modality in which affairs of companies are conducted by those charged with that responsibility. It is designed or structured to provide checks and balances between shareholders and management as well as mitigate agency problems. Expectedly, firms with good governance should incur less agency conflicts. In such firms, managers should be less likely to adopt a sub-optimal dividend policy. Good corporate governance enhances market confidence, encourages stability, ensures long-term international investment flows and consequently leads to economic growth.

There are two broad identifiable categories of corporate governance mechanism in literature: internal and external. Internal mechanism consists of bonding and monitoring control (ownership structure, board size, ownership concentration, board composition, proportion of independent directors and leverage) while external mechanism is made up of a competitive capital market, managerial labour market and competitive product market.

The link between dividend payouts and corporate governance rests on two hypotheses: outcome and substitution. According to the outcome model, a dividend is a result of the effective pressure by minority shareholders to force insiders to pay out profits. Governance practices such as the power to change directors, induce payout, sue directors, or liquidate the firm and receive the proceeds are some of the mechanisms that protect minority shareholders. In such firms, shareholders' insistence on the distribution of excess cash is less likely to fall on deaf ears than in firms with attributes associated with managerial entrenchment or weak governance. The 'correct' dividend policy is the outcome of the governance regime in this view because managers of firms with good governance are more likely to act in the interests of shareholders and pursue value-maximising policies, such as the payment of dividends when the firm's fundamentals warrant such a policy, than are managers of firms with weak governance (Sawicki, 2009). Therefore, a positive relationship exists between dividend payouts and corporate governance.

On the other hand, the substitution model predicts that weaker minority shareholders' rights are associated with higher dividends. According to this model, insiders can use the dividend payout to establish a reputation for decent treatment of minority shareholders. In this sense, dividends act as a pre-commitment or bonding mechanism. An important element in this view is the need for firms to assess funds in capital markets. Lowering the cost of future funds, provides the incentive to establish a positive reputation with minority shareholders. In this sense, payout is more valuable in countries with weak legal protection since outsiders do not have other protective measures on which to rely (Kose and Knyazeva 2006). Therefore, in the substitution model, a negative relationship is expected between payout and governance quality. Corporate financiers expect returns on

their investments, but firms may retain earnings; re-invest them for future benefits or distribute them as dividends. A dividend is a share of profits after tax, distributed to a firm's stockholders on a pro-rata basis; in proportion to the percentage of the firm's shares they own. A dividend can involve the distribution of cash or assets, such as discounts on the firm's products, available only to stockholders. When a firm distributes value through dividends, it reduces the value of the stockholders' claims against the firm. Dividends are not just an outcome of a firm payout policy; rather, they reflect a combination of investment strategy, financial decision and private information (Miller and Rock 1985). From the managerial perspective, dividend can serve as a tool to mitigate agency problems by disgorging extra free cash flows (Jensen 1986), or to signal to the market that only good quality firms can afford to pay dividends (Bhattacharya 1979). On the other hand, from the investor's perspective, dividends are beneficial since they represent a regular income stream which will enhance self-control by avoiding any irrational trade (Shefrin and Statesman 1984).

Dividend may also be in the form of bonus shares[1] and or interim cash dividend. Dividend payment, however, guarantees an equal payout for both shareholders and management equity holders (Kumar, 2004). In the context of this study, corporate governance can be described as a set of rules that ensures an efficient allocation of resources to the benefits of concerned stakeholders in a corporate entity while dividend payout is the return payable on the equity of the shareholders of that firm. The question that comes to mind is; why do firms pay dividends? Firms pay dividends as a sign of profitability, reward shareholders when earnings are not needed for re-investment, reduce managerial misappropriation and also to increase capital structure (Rozeff, 1982).

[1] bonus shares are regarded as having been acquired at the same time as the existing holding for no extra cost and the cost of the aggregate of the existing holding and the new shares.

The rationale for dividend declaration in Nigeria lies with the Board of directors, which defines corporate needs. A Board is viewed as a group of competent, efficient, objective and skilled persons with foresights who take several issues into consideration before approving a dividend declaration. More so, the majority of Board members are shareholders of the firm who may not reckon with immediate benefits in order to make more future gains. The Board may decide to retain more earnings for innovation, research and development, investment in future prospects which they envisage may bring higher returns in the future in terms of capital gain rather than distributing them as present dividend. Unsatisfied shareholders may decide to sell off their stocks if dividends are not declared, the action of the Board may drive up the share price of the firm and consequently, firm's value, if the public buys into its ideas.

The relationship between corporate governance (CG) and dividend payouts (DPs) has been a subject of debate due to the divergence of views in the literature (Bill, Hasan and Song, 2011). The reported conflicting results were due to some intervening factors (Claessens, Djankov and Klingebiel, 2000). The intervening factors are the performance indicators such as turnover, gross earnings, profits after tax, investment, growth opportunities and leverage. Corporate governance practices determine the dividend policy of companies (Kowalewski and Talavera, 2007). Corporate governance in Nigeria differs from those in advanced and other emerging economies; notably, it even differs among Nigerian firms. In Nigeria, Boards of directors have incentives and the ability to control dividend payouts.

Best CG is not an indication that high dividend is paid. Three scenarios can be anticipated or conceived in the relationship. First, it can showcase good performance, but dividend may be low when there are other pressing needs for earnings like a good investment with positive net present value (NPV). Hence, a firm that has good corporate governance with good performance may either pay low dividend or nothing. Second, dividends may be higher in firms with good performance, whereas CG is weak. Lastly, it may make firms pay high dividend when corporate performance is high or vice versa.

The relationship between the shareholders of a firm and its management is a typical example of the principal - agent relationship. From the features of the relationship, it can be seen that the agent's objectives are in conflict with those of the principal. If there were no conflict of interests between the principal and the agent, they would agree on the 'best strategy' and they would put this strategy into action (either by delegation, or by using the adequate communication mechanisms). That conflict of interests is seen and can be reflected in so many other ways. In some circumstances, corporations suffer from serious governance problems when some managers pursue corporate policies that favour management, employees, or other stakeholders at the expense of shareholders.

Moreover, according to Jensen and Meckling (1976), agency costs arise when owners (principal) have no voice in management. Agency theory also assumes that the major conflict in the governance of firms appears to be between powerful managers and small outside shareholders. Therefore, dividend payouts are seen as a means to reduce the cash flow managers can use at their discretion (Jensen, 1986; Lang and Litzenberger, 1989). These assumptions are void in Nigerian context where Board composition is measured by its independence. Also, Codes of Corporate Governance (2003 and 2011) require that

non-executive directors be more than executive directors thus enhancing Board's independence from the management. Large stockholders who dominate the Board utilise their voting power to influence managerial behaviour and hence, more effective corporate governance. In addition, there is the balance of power and authority between the chairman and the chief executive officer (CEO) so that no one individual has unfettered powers of decision.

Research on CG and DPs is mostly concentrated in developed and emerging economies like US, UK, Japan, Germany, India, China, Malaysia etc. In the US, regulated and dispersed shareholdings present agency problems between managers and shareholders. In contrast, share ownership is highly concentrated in Nigeria, thus the most relevant manifestation of the agency problem is not prominent. Also, Nigerian Boards of directors have incentives and the ability to control dividend payouts; hence conflict of interests between managers and shareholders is not significant.

1.1: Problem Statement

Trend of companies and stock market development are relatively new in transition countries (Berglöf and Bolton, 2002). In developed countries, capital markets are developed, have information efficiency and not volatile. Firms decide to be listed as they grow in size and need additional capital in order to grow. The ownership of these companies tends to become more diffuse and passes from a single entrepreneur or his family to other investors. In order to attract outside investors, family firms need to enforce corporate governance standards; which provide protection of the interests of the new shareholders. However, the equity market in Nigeria is quite young, underdeveloped, has less information efficiency and more volatile. In addition, it also differs from those of

developed markets' characteristics: such as firm levels as well as ownership structure and corporate governance standards. Regulatory and business environments in Nigeria in terms of CG structure, level of investors' rights, socio-cultural beliefs are at variance with those of advanced and other emerging economies; these motivate this thesis to examine the impact of CG on DPs in the country.

Further, a number of studies in financial literature (Jensen, 1986; Kumar, 2004; Mitton, 2004; Sawicki, 2005; John and Knyazeva, 2006; Jiraporn and Ning, 2006; Knyazeva, 2007; Kowalewski, Stetsyuk and Talavera, 2007; Kim and Lee, 2008; Shaif and Waliullah, 2012) have given due attention to the relationship between CG and DPs without regard to the link between the two due to firm size and sectoral classification singularly. The link is important because the association between CG and DPs varies quite significantly in relation to risk exposure, sectoral diversification factors, operational and financial activities all of which could affect dividend payment (Akhtar, 2006). For instance, multinational firms in Nigeria have easy access to multiple markets for their products; this has significant effects on their dividend payments, but all those are lacking in empirical studies conducted in Nigeria. As a result, this study considers these two important variables (size dimension and sectoral classification) in addition to previously modified agency model (Sawicki, 2009) to empirically determine the relationship between CG and DPs in Nigeria as a step towards bridging the gap.

In Nigeria, the issue of corporate governance gained importance in the post Structural Adjustment Programme (SAP) era. This period, witnessed the growth of private ownership and financial institutions. The country witnessed a very high rate of corporate failures because of the weak corporate culture in these institutions. There were many

frauds and financial scandals perpetuated by market players. Financial scandals and scams became more prominent in recent past when record-breaking of significant frauds were brought to public notice. Poor management and weak internal control systems accounted for some of the lapses in the operations of some corporate organisations. In addition, technical mismanagement involving inadequate policies, lack of standard practices, poor lending, mismatching of assets and liabilities; weak and ineffective internal control systems as well as poor and lack of strategic planning were prevalent in the Nigerian corporate industry. Thus, the significance of this study is very high in an environment like Nigeria, which is characterised by growing calls for effective corporate governance, particularly for public limited liability companies (Udoma, 2008). This call is understandable in view of the importance of effective governance at both microeconomic and macroeconomic levels.

To regain the confidence of the public and in response to the need for ideal corporate governance practices in Nigeria, the Securities and Exchange Commission (SEC) and Corporate Affairs Commission (CAC) aligned corporate governance in Nigeria with the International Corporate Governance Best Practices; spelt out the Code of Best Practices in Corporate Governance in Nigeria in 2003 for firms that are quoted on the Nigerian Stock Exchange. This was followed by a similar code by the Central Bank of Nigeria in 2006 (CBN, 2006) and à revised Codes of Corporate Governance 2011 in Nigeria, to address corporate governance practices in Nigeria.

A lot of emphasis is placed on corporate governance as a result of the high profile of corporate scandals locally and internationally. In Nigeria, corporate governance-related cases involving Cadbury Nigeria Plc in 2007 and Union Bank Nigeria Plc represent are

few examples. The response of the Securities and Exchange Commission was therefore aimed at enforcing best corporate governance practices; in line with the provisions of the Investments and Securities Act 2007, the SEC Rules and Regulations, the Code of Corporate Governance and International Best Practices (Udoma, 2008)

Anya (2003) contends that lack of transparency has obscured the way economic activities were conducted and contributed to the alarming proportion of economic/financial crimes in the financial industry. Trust and fiduciary principles, which are the cornerstones of any going concern; were completely jettisoned as firms engaged in all forms of sharp practices. Some of these sharp practices involve the deliberate manipulation or distortion of records to conceal the correct and true state of affairs. The financial scams witnessed in Nigerian corporate sector most especially in Cadbury Nigeria PLC in 2007 and Union Bank PLC in 2005 shook investors' faith in the Nigerian capital market and the efficacy of existing corporate governance practices in promoting transparency[2] and accountability[3]. The corporate scam was linked to corruption and fraudulent practices by Chief Executive Officers (CEOs) and Boards of directors of the concerned companies.

1.2: Research Questions

The questions addressed in this study are as follows:

(i) What is the relationship between corporate governance and dividend payouts in the selected Nigerian quoted firms?

(ii) Does the relationship between corporate governance and dividend payouts differ by sectoral level and firm size?

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[2] an act of being free from pretence or deceit.
[4] an obligation or willingness to accept responsibility.

1.3 : Objectives of the Study

The overall objective of this study is the determination of the extent to which corporate governance influences dividend payouts in firms quoted on the Nigerian Stock Exchange (NSE). Specifically, the study's objectives are:

(i) To establish the relationship between corporate governance and dividend payouts in selected firms quoted on the Nigerian Stock Exchange.

(ii) To determine the relationship between corporate governance and dividend payouts based on sectoral level and firm size.

1.4: Justifications for the Study

Theoretically, it extended the theoretical prediction of the agency theory by including size dimension and sectoral classification as corporate variables of corporate firms in the modified Sawicki (2009) model. The estimated equations of this thesis are quite different from Sawicki (adapted model) in a number of ways. First, equation one features firm level measures of governance indicators (four governance indicators were used in the thesis) in contrast to the country level measure (only one indicator of governance was used by Sawicki) employed by Sawicki, 2009; Shao, Kwok and Guedhami, 2009; Byme and O'Connor, 2012 and O'Connor, 2012. Second, equations two and three depict size dimension and sectoral category of firms respectively; in investigating the relationship between CG and DPs. Third, internal mechanism of governance indicators in contrast to external mechanism used in previous studies was used.

Previous studies employed ordinary least square (OLS) method but it has been discovered that it could not address endogeneity bias. Methodologically, this thesis filled the gap as it

employed dynamic panel methodology, a departure from multiple regression technique and panel data employed by past researchers (Gugler and Yurtoglu, 2003; and Jiraporn and Ning 2006; Sawicki, 2009; Jensen, 1986; Kumar, 2004; Mitton, 2004; John and Knyazeva, 2006; Knyazeva, 2007; Kowalewski, Stetsyuk and Talavera, 2007; Kim and Lee, 2008; Shaif and Waliullah, 2012) to investigate the relationship between CG and DPs. It also made use of system general method of moments (SYSGMM) estimator as a means of accommodating firm level characteristics and addresses endogeneity problems that surfaced in the data.

Empirically, DPs and CG are two of the most researched areas in financial economics, but little is known about the relationship between the two in Nigeria. Most studies on the effects of CG on DPs have focused on developed and Asian countries (Wei, Zhang and Xiao, 2003; and Bradley, Capozza and Seguin, 1998) but there is no consensus in literature on the linear relationship between CG and DPs. In spite of the renewed interests on issues of CG on the African continent, relevant empirical studies are still few. This study contributes to existing literature that CG imparts DPs positively and significantly; and that the relationship between the two differs by firm size and sector of operations in Nigeria.

Most studies use either a single indicator for corporate governance (Sawicki, 2009), or arbitrary indices (Jiraporn and Ning, 2006; Kowalewski *et.al*, 2007; Knyazeva, 2007; Kim and Lee, 2008). The measurement errors introduced from using a single indicator would almost certainly cause the regression coefficients to be inconsistent; the use of multiple indicators, four in this thesis alleviated the measurement error associated with a single indicator.

Further, given Nigeria's institutional environment with her high ownership concentration, government policies, legal system and capital structure; this study provides evidence for corporate policy makers to know moderating roles of governance indicators on the dividend behavior of non-financial firms in Nigeria. In addition, it will help the policy makers to know sectors; that need intervention so that they their values can be enhanced.

Moreover, the results of the study add to a growing literature that uses firm-level measures of governance to study the impact of corporate governance on corporations around the world. Such papers include: Subramaniam and Susela, 2011; Jiraporn *et al* 2011; Al- Twaijry, 2007; Jiraporn and Ning, 2006; Kumar, 2004). The firm-level findings suggest that individual firms are not entirely trapped by the legal frameworks of their home country; therefore, as they improve their corporate governance at firm level, they can demonstrate better and strong commitments to protecting investors that could translate into real economic outcomes.

1.5: Hypotheses of the Study

The testable hypotheses in this thesis are:

H_{10}: There is no significant relationship between dividend payouts and corporate governance in the selected firms in Nigeria.

H_{11}: There is a significant relationship between dividend payouts and corporate governance in the selected firms in Nigeria.

H_{20}: The relationship between corporate governance and dividend payouts does not differ by sectoral level and firm size in Nigeria.

H_{21}: The relationship between corporate governance and dividend payouts differ

by sectoral level and firm size in Nigeria.

1.6: Scope of the Study

The thesis used internal governance indicators: institutional ownership, board size, directors' shareholding and number of independent directors as proxies for corporate governance. The choice was justified on the ground that they are more flexible in principle and can be varied as circumstances dictate. Total assets/assets owned were captured to measure firm size while profits after tax (PAT) and gross earnings were controlled variables. 101 non-financial firms in 12 sub-sectors listed on the Nigerian Stock Exchange were used for the analysis which covered 1995 and 2012. The choice of period and sub-sectors was informed by the availability of data. The analysis was conducted at aggregate, size and sectoral levels. Firms were categorised into small (38) and large (63) based on their total assets. The 12 subsectors of the corporate firms covered in the study were: agriculture, (6); automobile and tyres, (6); building materials, (8); brewery, (6); chemical and paints, (9); conglomerates, (9); construction, (6); food and beverages, (17); healthcare, (11); industrial and domestic products, (10); petroleum and marketing, (9) and printing and publishing, (4) respectively.

1.7: Organisation of the study

This thesis is organised into six chapters. Following the introductory chapter is chapter two, which presents the background to the study and profiles of the Nigerian corporate sector in which performance indicators; corporate governance mechanism, legal framework and institutional framework respectively were outlined. Chapter three dwells on the literature review, categorised into theoretical, methodological and empirics. It also reviews the relationship between corporate governance and dividend payouts based on

size dimension and sectoral classification. Theoretical framework and methodology are discussed in chapter four. Dynamic panel model was employed as the estimation technique while agency theory is the theoretical foundation of the thesis. The estimated model is specified also in chapter four. Chapter five is on data analysis and discussion of findings thereof. Summary, conclusions and policy implications of the study are in chapter six.

CHAPTER TWO

BACKGROUND TO THE STUDY

2.0: Introduction

This chapter discusses the structure, performance as well as the governance of Nigeria's corporate sector. Legal frameworks in place and in relation to the operations of public limited corporations before Nigeria's independence as well as evolution of corporate governance are described. Trends in institutional development are also highlighted.

2.1: Structure of the Corporate Sector.

Publicly quoted companies on the Nigerian Stock Exchange (NSE) are classified into 12 sectors and many sub-sectors. Over the years, there have been changes within each sector and the total number of quoted firms on the floor of the Nigerian stock exchange (NSE). The focus of this section is the trend in the 5 year interval (1995, 2000, 2005 and 2010).

Table 2.1 depicts the structure of the quoted firms in Nigeria. There has been an increase in the total number of the quoted firms from 1980 to 2010. Specifically, quoted firms listed was only sixty-nine (69) in 1980 and later rose to 94 (36.2% increase) in1985. One hundred and thirty-two (132) securities were listed in 1990; they increased to one hundred and thirty-five (135) in 1995, which shows 2.27 percent growth. Another observation is that new sub-sectors such as maritime and mortgage came on board in 2000 as the number grew to 190 (25.9% growth rate) but a marginal growth in the number of quoted companies in 2005 brought the number to 194. Although, few sub-sectors were listed on

the exchange, but some firms were de-listed especially banks as a result of consolidation exercise in that sub-sector. The total listed firms as at 2010 stood at 220.

In 1990, engineering technology and insurance sub-sectors were introduced on the Nigerian Stock Exchange while Airline service was not active until 2000. Banking, food and beverages, tobacco and insurance subsectors witnessed increased number of firms in 1990, but some firms were de--listed in the banking sub-sector after 2000 as a result of reconsolidation reform. There was no listed firm in media and information technology, mortgage companies, real estate investment trust, road transportation, leasing, aviation sub-sectors until 2010. Some firms in few sub-sectors such as automobile and tyres, footwear, healthcare, industrial and domestic products and machinery were de--listed evidently in 2000. In 1990, there were one hundred and thirty-two (132) quoted companies in the corporate sector. The listed companies increased to 194 and 220 in 2000 and 2010 respectively. There was 30.5% growth in the number of listed companies between 1990 and 2000. Though, the upward trend continued and by 2010, the percentage growth of the listed firms was 15.8%.

In 1990, the total quoted companies were 132, out of which banking sector had 20 (the highest of all the sectors). By this, the growth rate of banking sector had risen to 400%. Firms in food and beverage sector rose to 16, an upward of 200% growth rate. Insurance sector too came on board in 1990, with a total number of 14 firms, which made it the third key sector in that year. Year 2000 witnessed a mixture of upward and downward growth of listed companies in the corporate sector. Banking sector maintained its position as the overall key sector. It had 25% growth between 1990 and 2000. Insurance sector ranked second as it recorded 28.6% growth. Its number increased to 18 as against 14 in 1990.

Industrial/domestic products became third in the rank and file of quoted firms. It witnessed 140% growth as its number increased by 7. There was a little decline in the number of food and beverage sub-sector, it declined by 12.5%. By this, it could not maintain its position as at 1990. Petroleum sub-sector came fifth as its number grew by 28.6%. Packaging, textiles, breweries, building materials, agriculture, chemical & paint, computer and office equipment appreciated in growth but conglomerates and construction sectors stagnated.

In 2010, insurance sector had 30 firms of the 220 quoted firms. Its percentage growth has been upward since 1990. This made it the first key or prominent sub-sector in the corporate sector. Banking sector ranked second though its growth declined as compared to 2000 when it ranked first in the prominent sectors. Food and beverages became the third key sector as its number increased to 17 firms as against 14 in 2000. Petroleum and packaging's growth appreciated slightly, but conglomerate's growth got stagnated.

Based on the successive proportions of the sectoral growth, the prominent sub-sectors that contributed significantly to the growth of the corporate sector are banking, food and beverages, insurance, healthcare, petroleum and packaging.

Table 1: Structure of Nigerian Corporate Sector

	Number Of Quoted Firms On The Nigerian Stock Exchange						
SECTOR	1980	1985	1990	1995	2000	2005	2010
Agriculture/Agro Allied	--	--	2	5	5	6	6
Airline Services	--	--	--	-	1	2	2
Automobile and Tyre	--	6	5	5	6	5	2
Aviation	--	--	--	-	--	--	1
Banking	4	5	20	20	38	25	24
Breweries	2	4	3	3	6	5	7
Building Materials	2	4	5	5	8	8	7
Chemical and Paints	5	5	5	5	7	7	9
Computer& Office Equipments	2	3	5	5	6	--	6
Conglomerates	6	6	8	8	8	9	8
Construction	6	8	8	8	8	6	7
Engineering Tech	--	--	1	1	3	3	3
Food/Beverages & Tobacco	8	11	16	16	14	13	17
Commercial Services	3	3	--	-	2	8	4
Footwear	2	2	2	2	2	2	1
Healthcare	6	7	10	10	11	11	8
Hotel & Tourism	--	--	--	-	--	1	3
Industrial/Domestic Products	3	7	5	5	12	12	7
Information Commu & Telecommunication	--	--	--	-	--	--	6
Insurance	--	--	14	14	18	21	30
Leasing	--	--	--	-	--	--	1
Machinery(Marketing)	2	3	3	3	3	3	2
Maritime	--	--	--	-	--	1	1
Media	--	--	--	-	--	--	2
Memorandum quotations.	--	--	--	-	--	--	16
Managed funds	--	--	--	-	4	4	--
Mortgage Companies	--	--	--	-	--	--	4
Other Financial Institutions	2	2	--	-	--	--	6
Packaging	4	6	7	7	8	7	9
Petroleum (Marketing)	4	5	7	7	9	8	9
Printing&.Publishing	2	2	2	2	4	4	4
Real Estate	--	--	--	-	1	1	1
Real Estate Investment Trust	--	--	--	-	--	--	2
Road Transportation	--	--	--	-	--	--	1
Textiles	5	5	4	4	6	6	1
The Foreign Listings	--	--	--	-	--	--	2
Investment Co.	1	--	--	-	--	--	--
Emerging Markets	--	--	--	--	--	16	--
Total	69	94	132	135	190	194	220

Source: *Nigerian Stock Exchange's Fact books (various issues).*

2.2: Performance of the corporate sector at aggregate level

The Nigeria Stock Exchange All-share index in 1995 opened at 20,827.17 and closed at 25,384.14 (20.5% growth rate). The All Share Index (ASI) was pressured downwards during the second quarter. The All-share index had, during the first quarter of the year increased by 22.4%, however, there was a reversal during the second quarter when it declined by 1.9%. The NSE 30 index recorded a half year gain of 24.9% to close at 1,053.92 having risen by 23.2% and 1.72% during the first and second quarters, respectively. Also by midyear, four sectoral indices appreciated. The NSE Food/Beverage index appreciated by 47.95% to close at 839.31, the NSE banking index appreciated by 15.7% to close at 391 and the NSE Oil/Gas index appreciated by 36.66% to close at 410.33, however, the NSE insurance declined by 28.35% to close at 186.06. Turnover on the exchange closed the year at 39.5 billion shares worth ₦14.1 billion, up by 88.1% and 3.7%, respectively, on the volume and value of shares traded in the previous year. The total value of shares outstanding on the exchange rose by 13.9% to close the year at N300 billion. The market capitalisation, which opened the year at ₦263.3 billion, grew as a result of new listings and recovery in equity prices (NSE Fact book, 1996)

In 2000, The Nigerian Stock Exchange All-Share index fell by 7.2% ending the year at 5266.43. However, the rate of decline, this time, was an improvement on the 11.9% drop recorded in the preceding year. Also, improved equity prices reflected in the performance of The Nigerian Stock index, which rose by 22.8% in the first half of the year to stand at 6466.72. Turnover on the Nigerian Stock Exchange in 2000 stood at ₦120.7 billion, up by 100.17% recorded in the previous year. The bulk of the transactions were in equities, which accounted for ₦113.88 billion of the turnover value; while the total market value

of the listed firms was ₦1.359 trillion. This was achieved largely as a result of price appreciation in the equity sector and the listing of new securities. In addition, the All-share index grew by 41.2%.

In addition, The Nigeria Stock Exchange all share indexes grew by 18.5% in 2004 to close the year at 23,844.45. On 18th June, the index had attained an all time high of 30,703.46 before dropping to its year end position. The performance of the index reflected the difficult economic environment that quoted companies operated in 2004. During the period under review, the Nigeria Stock Exchange recorded a turnover of 9.9 billon shares worth ₦106.1 billion, in contrast to 10.3 billion shares worth ₦126.2 billion recorded in the corresponding period of 2004. This included ₦2.09 billion transactions in the Federal Government Development stocks and state government bond sectors; and ₦1.3million turnover in the right of Crusader Insurance Plc. The value of all the outstanding securities on the Exchange declined to close at ₦2.08 trillion. The decline was largely due to price drops in the equity sector following widespread portfolio elicited by the consolidation in the banking sector (Ibid).

Transactions in the stock market were boosted by profit taking and loss cutting by investors. The impact of positive economic fundamentals and regulatory measures caused improvements in stock market indicators during the first quarter of the year. However, the effect of the economic meltdown, banking sector reforms and the continued overhang of stocks held by institutions as security for margin loans coupled with the drop in domestic saving impacted negatively on the stock market (Okereke- Onyiuke 2010). Further, the value of the outstanding securities of the Nigeria Stock Exchange increased by 16.3% to close in June at ₦8.22 trillion compared to ₦7.03 trillion in December 2009. The increase

could be attributed to the rise in the price of equities. The 214 listed equities accounted for ₦60.17 trillion or 75.1% of the total market capitalisation, up from 71% in December 2009 and 69.63% in June 2009.

The bulk of transactions on NSE in 2010 were in equities. The total market values of securities listed stood at ₦11.2 trillion by year end. The market capitalisation of listed equities accounted for ₦7.92 trillion. Turnover on the exchange closed the year at 93.335 billion shares valued at ₦797.551 billion. Average daily activities dropped from 414, 73 million shares worth ₦2.8 billion in 2009 to 377.9 million shares valued at ₦3.2 billion. A statistical summary of the market performance of NSE is represented in table 2.3 and figure 1 below.

Table 2: Summary of NSE Performance (₦, Billion)

INDICATORS	1995	2000	2005	2010
Market Capitalisation	265.3	1359	2000.9	7030
Turnover	39.5	120.7	262.9	377.9
Average Daily turnover	0.73	2.3	4.7	5.3
Values of New Issues Approved	356.0	525.0	730.5	1702.0

Source: *NSE fact books (various issues).*

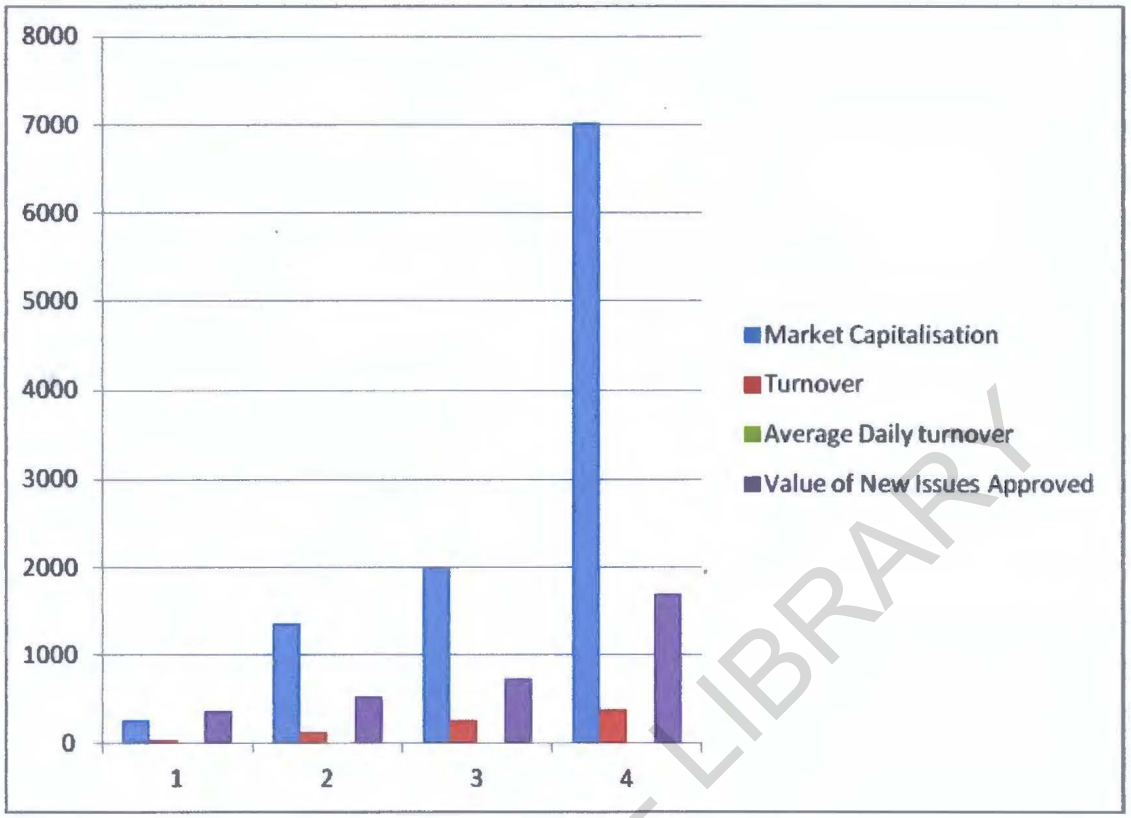


Figure 1: Statistical summary of NSE Performance (₦, Billion)

Source: *NSE fact books (various issues).*

2.3: Performance of the corporate subsectors

In evaluating the performance of Nigerian corporate sector, one hundred and one (101) firms were selected as representatives of the quoted companies based on availability of relevant information (market capitalisation, turnover, gross earnings, profits after tax and dividend paid). The selected firms are from the twelve (12) sub-sectors according to (NSE) classifications namely: agriculture, automobile & tyres, breweries, building materials, chemical/paints, conglomerates, construction, food & beverage, healthcare, industrial/domestic, petroleum/marketing and publishing/printing (see appendices for lists of firms). Data was sourced mainly from Nigerian Stock Exchange's (NSE) Fact books

(various issues) and annual accounts and reports of the selected firms. The performance of the corporate sector based on the aforementioned indices is presented below.

2.3.1: Average market capitalisation of the selected subsectors

Table 2 presents the average market capitalisation of the 101 selected firms. In 1990, Food and beverage sector was the most capitalised among others as it recorded 56% of the grand total market capitalisation. Breweries sector ranked second while automobile & tyres subsector was the least capitalised sector. The trend changed in 1995 as conglomerate subsector became the most capitalised among the sub-sectors. It recorded an upward 61.3% out of the total grand market capitalisation. Petroleum sub-sector still ranked second, building subsector came third though the capitalisation declined compared to what it recorded previously.

In 2000, petroleum sub-sector recorded the highest market capitalisation (59.63%). Conglomerate recorded 33.79% and ranked. Second, building material sector maintained relatively its last position. The trend continued as conglomerate still maintained its position in 2005; it recorded 57.2% of the grand total market capitalisation. Petroleum sub-sector still ranked second as it previously did, it had 39.53% of the grand total market capitalisation. The third position went to building sub-sector in that it had 4.66% of the grand total capitalisation. Nevertheless, the trend changed in 2010 as food and beverage sector became the most capitalised sector among the sub-sectors. It recorded an upward 61.3% out of the total grand market capitalisation while packaging sub-sector recorded the least in market capitalisation. Overall, food & beverage, conglomerate and breweries sub-sectors dominated in market capitalisation, so relatively it could be concluded that they were the prominent sub-sectors in the capital market.

Table 2: Average market capitalisation of the selected subsectors (₦, Billion)

SUBSECTOR	1995	2000	2005	2010
AGRICULTURE	50.8	61.9	71.5	81.4
AUTOMOBILE	143.2	229.2	325.3	447.9
BREWERIES	823.7	930.9	982.6	1025.9
BUILDING	169.7	439.9	808.4	890.9
CHEMICAL	1784.1	1901.6	2621.4	1332.1
CONGLOMERATES	1866.0	2216.5	3762.3	4350.7
CONSTRUCTION	592.1	871.1	851.2	722.0
FOOD& BEV	5657.5	9033.9	12553.4	16756.7
HEALTHCARE	99.6	216.8	253.0	319.7
INDUSTRIAL	525.0	652.0	701.0	707.9
PETROLEUM	2949.1	3827.0	4550.9	5818.6
PUBLISHING	25.6	25.8	45.0	35.0

Source: *NSE fact books (various issues).*

Table 2 is represented in figure 2 below.

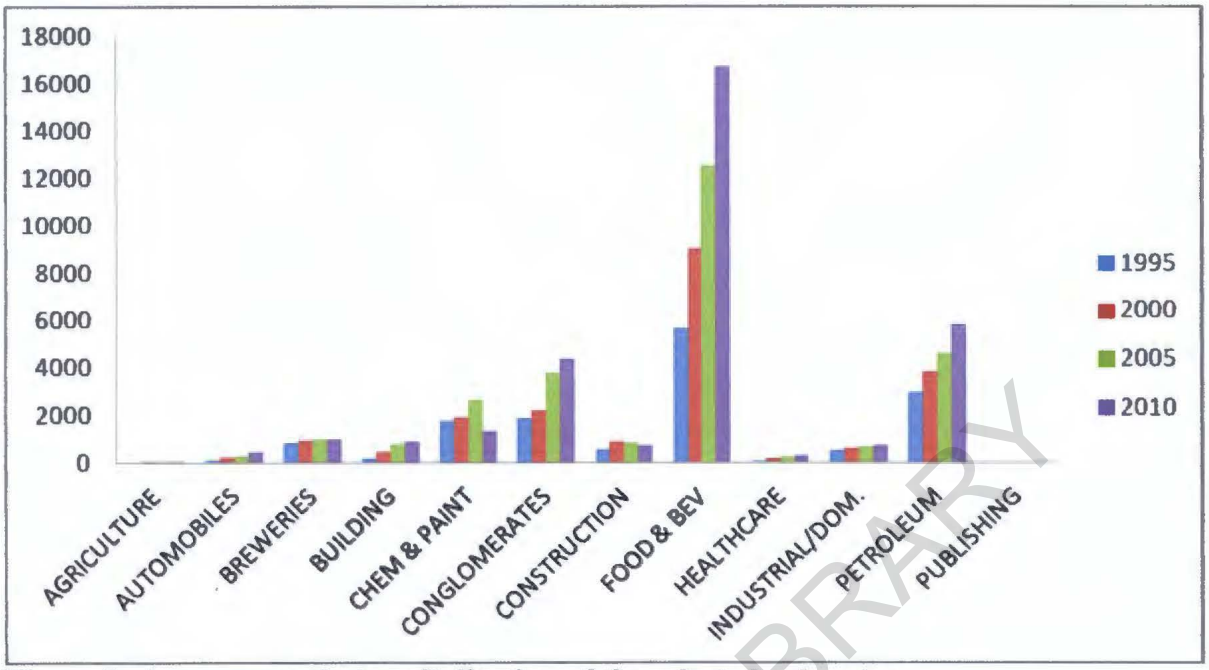


Figure 2: Average market capitalisation of the selected subsectors

Source: *NSE fact books (various issues).*

2.3.2: Average gross earnings of the selected subsectors

Table 3 below depicts the performance of the sub-sectors in terms of their average gross earnings. The trend of the performance of the selected companies in 1995 indicated that conglomerates sub-sector led other sub-sectors as it ranked first in average gross earnings amongst the sub-sector. Construction sub-sector was the next highest performer and building materials ranked third as agriculture was the least gross earner. In 2000, petroleum sector ranked first in total earnings as it recorded 47.14% of the grand gross earnings. Food and beverage sub-sector became second gross earner with 27.7% of the grand gross earnings. The third highest gross earner was petroleum sub-sector with 21.15% of the grand gross earnings while conglomerate became the least gross earner. Petroleum sub-sector still maintained its position in 2010 as the highest earning earner. Conglomerate came second and breweries sub-sector's gross earnings rose significantly.

Overall, the prominent sub-sectors in terms of gross earnings were conglomerates, petroleum and breweries.

Table 3: Average gross earnings of the selected subsectors (₦, Million)

SUBSECTOR	1995	2000	2005	2010
AGRICULTURE	41.5	54.0	47.4	58.1
AUTOMOBILE	36.8	39.1	38.0	53.8
BREWERIES	403.4	598.6	667.4	721.3
BUILDING	287.1	369.5	480.7	593.1
CHEMICAL	213.9	360.1	513.5	669.0
CONGLOMERATES	304.7	352.0	413.1	567.6
CONSTRUCTION	135.31	148.63	159.0	165.8
FOOD& BEV	516.8	620.0	712.0	798.4
HEALTHCARE	216.0	259.0	306.3	413.5
INDUSTRIAL	147.3	151.1	179.0	180.1
PETROLEUM	590.9	640.4	764.7	806.0
PUBLISHING	16.4	17.6	19.7	10.0

Source: *NSE fact books (various issues).*

Table 3 is represented in figure 3 below.

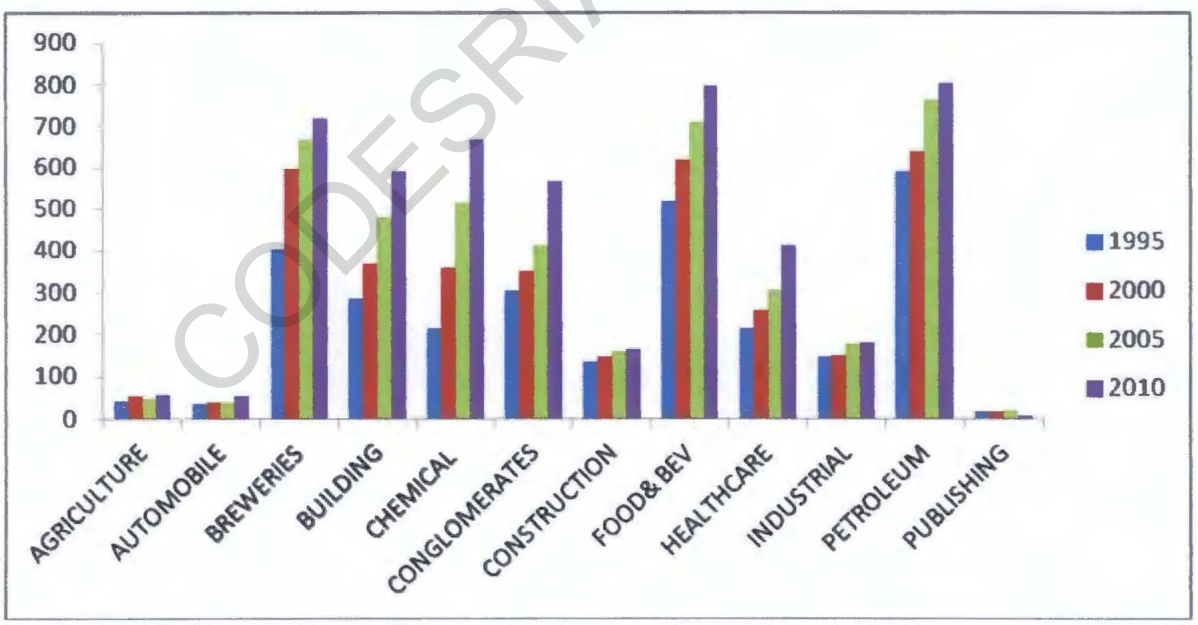


Figure 3: Average gross earnings of the selected subsectors

Source: *NSE fact books (various issues).*

2.3.3: Average turnover of the selected subsectors

Table 4 reports the average turnovers of the selected sub-sectors. The trend of performance in terms of turnover in 1995 indicated that the conglomerates sub-sector was the highest performer in turnover. The second position was recorded by petroleum while building ranked third and agriculture was the last performer. In 2000, the highest performer was petroleum sub-sector; it has 92.57% of the grand total. Conglomerate came second with 2.26% growth rate, but the last performer was building material. In 2010, food & beverages sector came first while other sub-sectors' turnovers deepened. Conglomerates ranked second as automobile/tyres recorded the lowest turnover. Overall, conglomerates, petroleum and food and beverages were the prominent sub-sectors in turnover as an indicator of performance.

Table 4: Average turnover of the selected subsectors (₦, Million)

SUBSECTOR	1995	2000	2005	2010
AGRICULTURE	74.3	85.0	99.8	99.0
AUTOMOBILE	230.1	275.9	325.7	276.7
BREWERIES	174.1	227.7	248.0	268.2
BUILDING	190.5	197.8	149.9	224.9
CHEMICAL	85.1	125.6	168.4	225.9
CONGLOMERATES	3393.9	4268.8	5390.5	6016.6
CONSTRUCTION	4179.2	5804.8	6539.5	7240.7
FOOD& BEV	6042.0	6944.9	7920.4	8629.5
HEALTHCARE	880.0	948.2	1090.7	1198.4
INDUSTRIAL	4660.0	3682.3	2438.9	4147.7
PETROLEUM	9226.3	9138.4	9600.6	10344.0
PUBLISHING	137.6	233.5	292.9	232.4

Source: *NSE fact books (various issues).*

Table 4 is represented in figure 4 below.

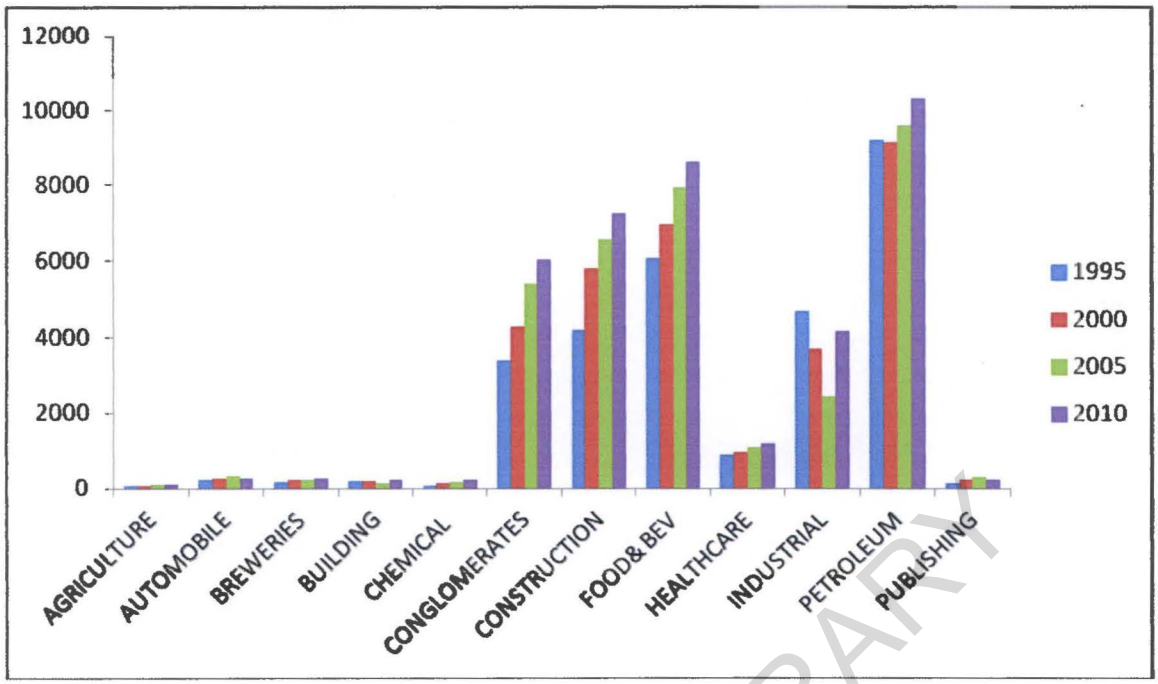


Figure 4: Average turnover of the selected subsectors

Source: *NSE fact books (various issues).*

2.3.4: Average profits after tax of the selected subsectors

Table 5 presents that conglomerate and food & beverages ranked first and second respectively in average profits after tax in 1995. Publishing was the last performer in terms of profits after tax. In 2000, petroleum also was the highest performer. Food & beverages' profit after tax swiftly increased and ranked second. The third position went to conglomerate and building material was the least performer. 2010 witnessed an upward trend in the performance of some sub-sectors, except petroleum and a few others, which nosedived slightly. Conglomerates sub-sector ranked first, food & beverages ranked second; breweries, third. Overall, the conglomerates sub - sector had the highest profits after tax as food & beverages ranked second amongst all the selected sub-sectors.

Table 5: Average profits after tax of the selected subsectors (₦, billion)

SUBSECTOR	1995	2000	2005	2010
AGRICULTURE	100.5	100.7	110.9	121.9
AUTOMOBILE	37.1	24.3	45.0	59.1
BREWERIES	250.8	314.0	423.6	436.5
BUILDING	82.8	75.1	102.2	124.6
CHEMICAL	36.1	43.8	40.8	60.2
CONGLOMERATES	202.1	237.0	270.6	338.0
CONSTRUCTION	27.3	23.4	39.2	46.5
FOOD& BEV	688.1	532.5	665.5	885.0
HEALTHCARE	293.3	252.9	105.0	334.6
INDUSTRIAL	118.0	121.1	124.5	135.0
PETROLEUM	400.0	426.0	516.4	608.0
PUBLISHING	52.0	62.5	72.9	82.8

Source: *NSE fact books (various issues).*

Table 5 is represented in figure 5 below.

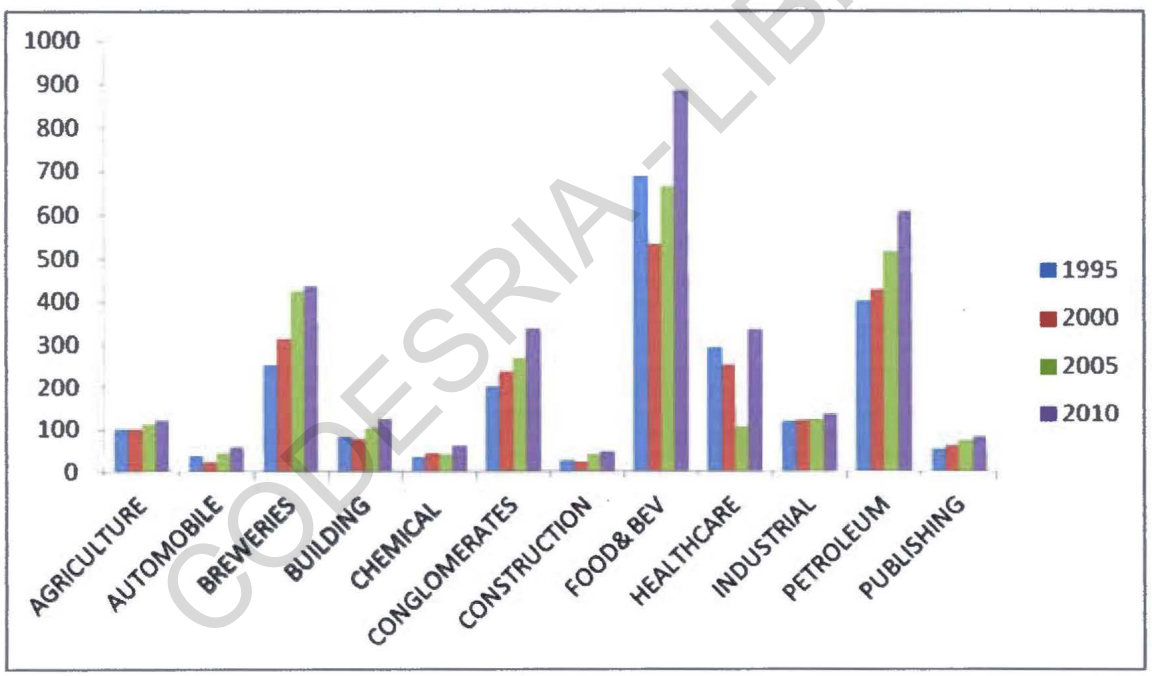


Figure 5: Average profits after tax of the selected subsectors

Source: *NSE fact books (various issues).*

2.3.5: Average dividend paid of the selected subsectors

Table 6 reports the average dividend structure of the selected sub-sectors. In 1995, conglomerates sub-sector ranked first in dividend payments. Food & beverages ranked second while breweries, building and industrial/domestic ranked third, fourth and fifth respectively. In 2000, petroleum sector still maintained its status as the highest payer of dividend. Conglomerate came second as against building material that was second in 1995. Food & beverages, building material and banking ranked third, fourth and fifth successively. There was an upward trend in dividend payment by all the sub-sectors, except petroleum sub-sector; which slightly declined in the percentage of dividend paid. However, it still maintained its status as the highest payer of dividend amongst the selected sub-sectors. The conglomerate was the highest payer of dividend in 2010, followed by food and beverages while agriculture was the last payer of dividend amongst the selected sub-sectors. Overall, conglomerates, food & beverages and petroleum were the prominent sub-sectors in terms of their significant contributions to the values of their companies and subsequently, wealth of their shareholders.

Table 6: Average dividend of the selected subsectors (₦, million)

SUBSECTOR	1995	2000	2005	2010
AGRICULTURE	40.3	50.1	60.5	70.6
AUTOMOBILE	50.1	60.3	70.9	81.1
BREWERIES	60.1	74.3	85.9	93.9
BUILDING	98.0	141.9	190.8	204.2
CHEMICAL	63.2	75.2	76.1	87.7
CONGLOMERATES	102.9	139.7	147.7	203.9
CONSTRUCTION	72.0	83.7	95.2	92.9
FOOD& BEV	328.8	541.8	688.6	769.8
HEALTHCARE	50.6	61.5	70.5	81.2
INDUSTRIAL	45.9	57.2	68.3	79.5
PETROLEUM	387.3	493.9	595.0	680.1
PUBLISHING	30.1	40.2	50.4	60.1

Source: *NSE fact books (various issues).*

Table 6 is represented in figure 6 below.

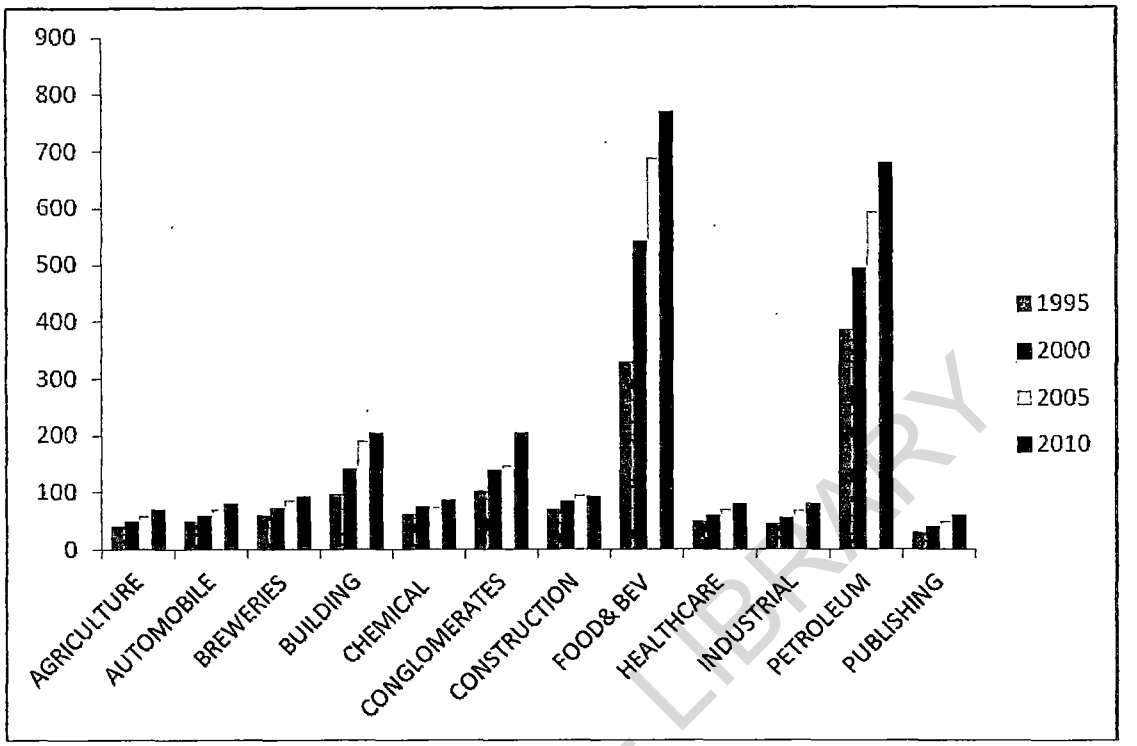


Figure 6: Average dividend of the selected subsectors

Source: *NSE fact books (various issues).*

The trend of the general performance of the selected sub-sectors indicated that in 1995, the conglomerate sub-sector was the most capitalised sub-sector, followed by petroleum sub-sector as food & beverages and building materials sectors ranked third and fourth respectively. Food & beverages recorded the highest gross earnings among the selected sectors. Petroleum sub-sector ranked second while building materials and conglomerate sub-sectors came third and fourth respectively. Food and beverages recorded highest turnover in 1995 and petroleum sub-sector followed suit, building materials and conglomerate ranked third and fourth respectively. The highest profits after tax went to the petroleum sub-sector. Food & beverages had second position while conglomerate and building ranked third and fourth respectively. The petroleum sub-sector was the most

Table 6 is represented in figure 6 below.

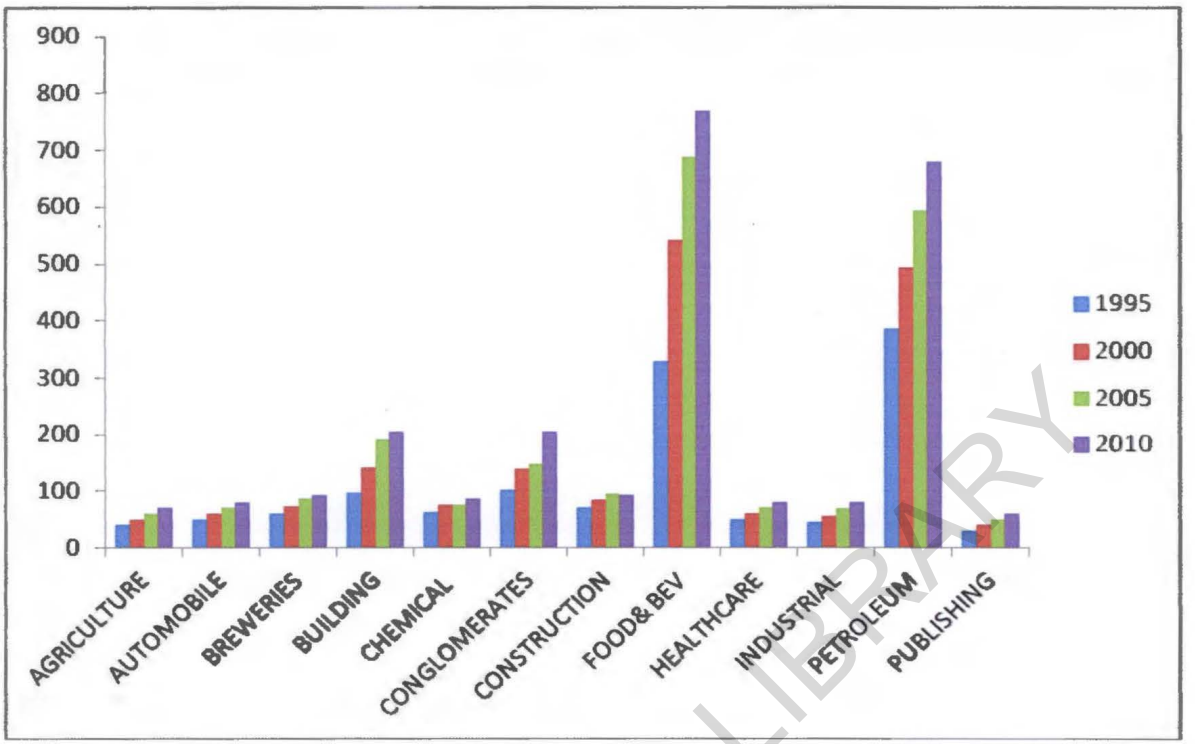


Figure 6: Average dividend of the selected subsectors

Source: *NSE fact books (various issues).*

The trend of the general performance of the selected sub-sectors indicated that in 1995, the conglomerate sub-sector was the most capitalised sub-sector, followed by petroleum sub-sector as food & beverages and building materials sectors ranked third and fourth respectively. Food & beverages recorded the highest gross earnings among the selected sectors. Petroleum sub-sector ranked second while building materials and conglomerate sub-sectors came third and fourth respectively. Food and beverages recorded highest turnover in 1995 and petroleum sub-sector followed suit, building materials and conglomerate ranked third and fourth respectively. The highest profits after tax went to the petroleum sub-sector. Food & beverages had second position while conglomerate and building ranked third and fourth respectively. The petroleum sub-sector was the most

rewarding of shareholders in terms of dividend in 1995 among the selected sub-sectors. Building materials sub-sector ranked second in the rank and file of top rewarders of shareholders. Conglomerate came third as food & beverages ranked fourth.

The trend in 2000 showed that the conglomerate sub-sector became the most capitalised sub-sector; food & beverages ranked second and building ranked third. The petroleum sub-sector had the highest gross earnings in 2000 as food & beverages, building materials and conglomerate followed in successive order. The highest turnover was recorded by petroleum sub-sector. The second position went to conglomerate as food & beverages and building materials came third and fourth respectively.

In 2000, petroleum sub-sector top the list of the highest rewarder of shareholders. Food & beverages ranked second as building materials and conglomerate ranked third and fourth respectively. Year 2010 presented conglomerates sub-sector as the most capitalised sub-sector as petroleum ranked second, food & beverages and building material followed in successive orders. The highest total gross earner amongst the selected sub-sectors was petroleum. Food & beverages ranked second while building materials, conglomerate ranked third and fourth respectively. The sub-sector that had the highest turnover in 2010 was petroleum as food & beverages came second. Conglomerate sub-sector ranked third as building materials ranked fourth. Petroleum subsector became the first subsector that recorded the highest profits after tax. Food & beverages ranked second while conglomerate and building materials came third and fourth in successive order. The highest rewarder of shareholders in 2010 was the petroleum sub-sector as the food & beverages came second. The third position was recorded in building materials and conglomerate ranked fourth.

2.4: Relationship between governance indicators and dividend payouts.

Tables 7 - 18 depict the relationship between governance indicators and dividend payouts in all the twelve selected sub-sectors.

2.4.1: Relationship between governance indicators and dividend payouts in Agricultural sub-sector

Table 7 presents a trend analysis that shows the relationship between governance indicators (board size, number of independent directors, institutional shareholding and directors' shareholding) and dividend payouts (average dividend per share) in the agricultural sub-sector. The sub-sector comprised of six listed firms (Okomu oil palm PLC, Livestock Feeds PLC, Grommac Industries PLC, Presco PLC, FTN Cocoa Processors PLC and Afriprint Nigeria PLC) within the period of analysis. From the table, dividends per share on the average rose from 0.16 kobo in 1995 to 0.3 kobo in 1997, while it fell to 0.075 kobo in 1999. In 2000, no dividend was paid; however, dividends per share peaked at 0.5 kobo in 2003, while it fell to 0.375 kobo in 2004. The value further fell from 0.4 kobo in 2005 to 0.11kobo in 2008 but no dividends was paid in 2011 and 2012. On the other hand, average institutional shareholding fluctuated around 35.66% and 79.7% between 1995 and 2012. Specifically, institutional shareholding in the sub-sector fell from 53.5% in 1995 to 36.25% in 1999. In 2000, the value stood at 68% and fell to 50.4% in 2004. Institutional investors in the agricultural sub-sector on the average accounted for 67.2% in 2005, while in 2009 the value fell to 45.4%. A steady rise in institutional shareholding is seen from 60.5% in 2010 to 79.7% in 2012.

On the other hand, the proportion of independent directors fell from about 66% in 1995 to 28.8% in 1998, while in 1999 the value stood at 45%. The proportion of independent

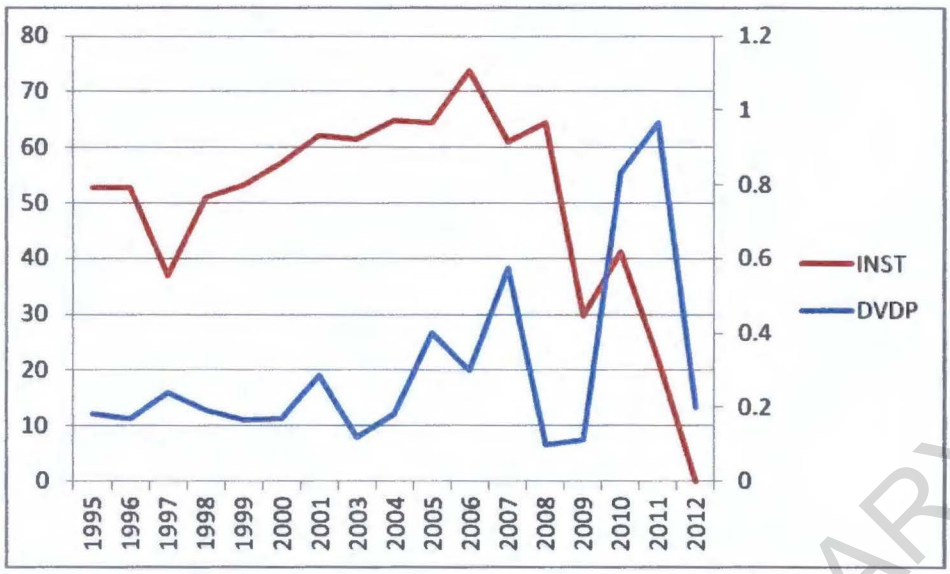
directors in the sub-sector accounted for 62.5% in 2001 but fell slightly to 30% in 2003 while it rose to 55.5% in 2004. The value fluctuated around 31.9% and 62.6% between 2005 and 2012. Directors' shareholding (proportion of directors' total shares in the paid up share) fell from 0.04% in 1995 to 0.0029% in 1999. In 2000, the value stood at 0.00045%, but rose to 0.050% in 2004. It fluctuated around 0.03% and 1.0% between 2005 and 2009, while it peaked at 14.37% in 2012. Average board size in the periods under review ranged between 7 and 12.

Table 7: Relationship between governance indicators and dividend payouts in agricultural sub-sector

YEAR	AVERAGE DIVIDEND PAID (Kobo)	AVERAGE INSTITUTIONAL SHAREHOLDING (%)	AVERAGE NO OF INDEPENDENT DIRECTORS (%)	AVERAGE DIRECTORS SHAREHOLDING (%)	AVERAGE BOARD SIZE
1995	0.16	53.5	0.67	0.05	12
1996	0.23	35.7	0.44	0.24	7
1997	0.30	39.2	0.47	0.06	8
1998	0.22	46.5	0.29	0.03	7
1999	0.08	36.3	0.45	0.03	8
2000	0	68	0.47	0.01	8
2001	0.30	37.7	0.63	0.03	8
2002	0.48	61	0.53	0.03	10
2003	0.50	69	0.30	0.07	10
2004	0.38	50.5	0.56	0.05	10
2005	0.40	67.2	0.37	0.04	9
2006	0.12	41.4	0.63	1.01	9
2007	0.01	61.6	0.49	0.19	9
2008	0.11	61.9	0.32	0.18	9
2009	0.05	45.4	0.46	0.14	9
2010	0.2	60.5	0.34	9.41	9
2011	0	63.6	0.38	8.88	9
2012	0	79.7	0.58	14.4	11

Source: Analysts' Data Services & Resources Limited

The trend analysis in the table above is depicted graphically in figures 7-10



Source: Analysts' Data Services & Resources Limited

Figure 7: Trend Analysis between Institutional shareholding and Dividend Payouts in Agricultural Subsector

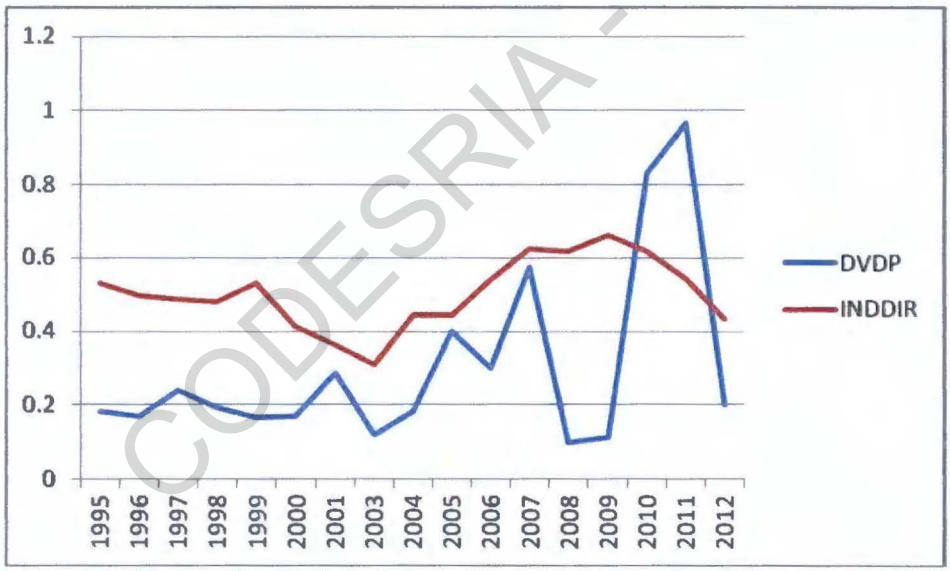


Figure 8: Trend Analysis between No. of Independent Directors and Dividend Payouts in Agricultural Subsector

***Source:** Analysts' Data Services & Resources Limited*

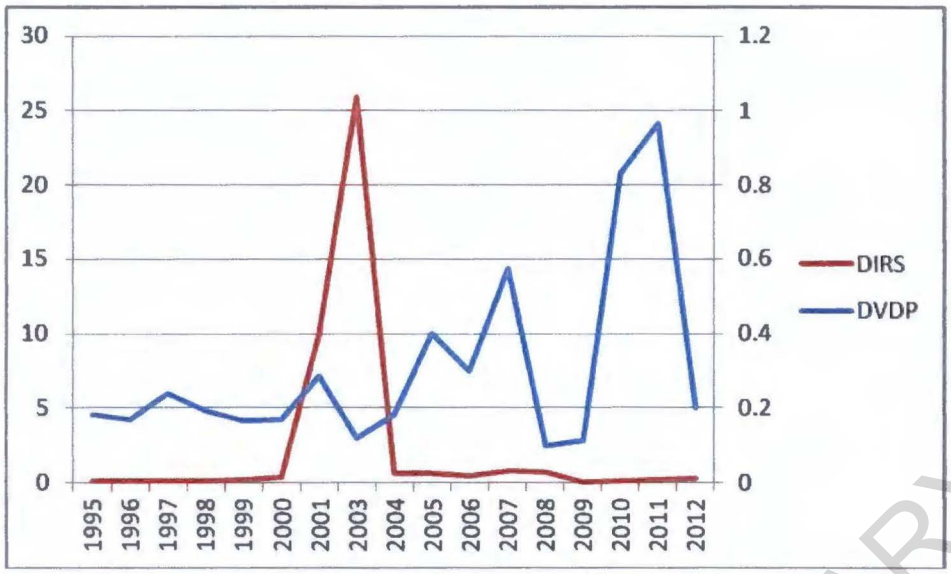


Figure 9: Trend Analysis between Directors' shareholding and Dividend Payouts in Agricultural Subsector

Source: *Analysts' Data Services & Resources Limited*

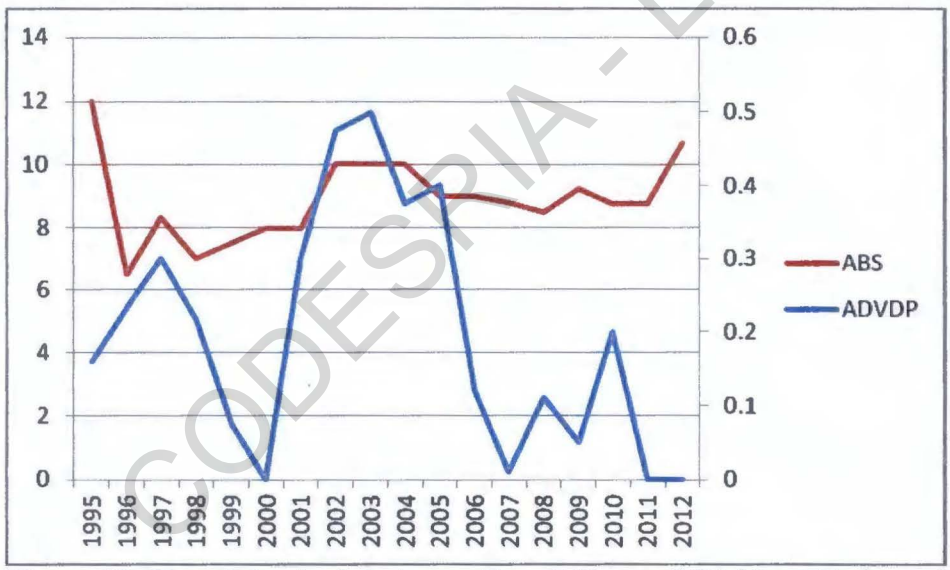


Figure 10: Trend Analysis between Board Size and Dividend Payouts in Agricultural Subsector

Source: *Analysts' Data Services & Resources Limited*

2.4.2: Relationship between governance indicators and dividend payouts in Automobile/tyres subsector

The trend analysis that shows the relationship between governance indicators (board size, number of independent directors, institutional shareholding and directors' shareholding) and dividend payouts (average dividend per share) in the automobile/tyres sub-sector is depicted in table 8. The sub-sector comprised of six listed firms (Bewac Nig. PLC, Incar Nig. PLC, Intra Motors PLC, R.T. Briscoe Nig. PLC, Reizoot Nig. Company PLC and DN Tyres & Rubber PLC) within the period of analysis. Dividends per share on the average fell from 0.07 kobo in 1995 to 0.025 kobo in 1997 and gradually fell to 0 kobo in 1999. Also, no dividend was paid in 2000. However, the value rose to 0.1 kobo in 2011 but further deepened to 0 kobo in 2012. The average board size of the sub-sector in the periods under review ranged between 6 and 12.

Average institutional shareholding fluctuated around 18% and 49.7% between 1995 and 2012. It rose from 31.59% in 1995 to 34.95% in 1999. In 2000, the value stood at 39.74% and rose to 49.7% in 2004. An upward rise in institutional shareholding is seen from 18% in 2010 to 34% in 2012. On the other hand, the proportion of independent directors fell from about 47% in 1995 to 42% in 1998, while in 1999 the value stood at 46%. The proportion of independent directors in the sub-sector accounted for 40% in 2001 but rose slightly to 42% in 2003 and again to 66.7% in 2004. Directors' shareholding (proportion of directors' total shares in the paid up share) fell from 0.23% in 1995 to 0.19% in 1999. In 2000, the value stood at 0.12%, but rose to 0.2% in 2004. It fluctuated around 0.13% and 0.04% between 2005 and 2009 but rose to 0.08% in 2012.

Table 8: Relationship between governance indicators and dividend payouts in Automobile/tyres subsector

YEAR	AVERAGE DIVIDEND PAID (Kobo)	AVERAGE INSTITUTIONAL SHAREHOLDING (%)	AVERAGE NO OF INDEPENDENT DIRECTORS (%)	AVERAGE DIRECTORS SHAREHOLDIG (%)	AVERAGE BOARD SIZE
1995	0.07	31.6	0.47	0.23	12
1996	0.05	30.0	0.56	0.23	10
1997	0.03	33.6	0.42	0.24	10
1998	0.02	33.6	0.42	0.24	11
1999	0	35.0	0.46	0.19	10
2000	0	39.7	0.38	0.12	9
2001	0.06	39.4	0.40	0.15	9
2002	0.09	37.8	0.53	0.15	9
2003	0.09	38.1	0.42	0.15	9
2004	0.08	49.7	0.67	0.20	6
2005	0.08	49.6	0.36	0.13	9
2006	0.12	45.9	0.42	0.12	9
2007	0.17	33.7	0.45	0.41	8
2008	0.20	44.1	0.43	0.36	7
2009	0.05	14.7	0.20	0.05	8
2010	0.05	18.0	0.17	0.04	6
2011	0.1	38.0	0.33	0.08	6
2012	0	34.0	0.33	0.09	6

Source: *Analysts' Data Services & Resources Limited*

Graphically, the trend analysis in the table above is depicted in figures 11-14

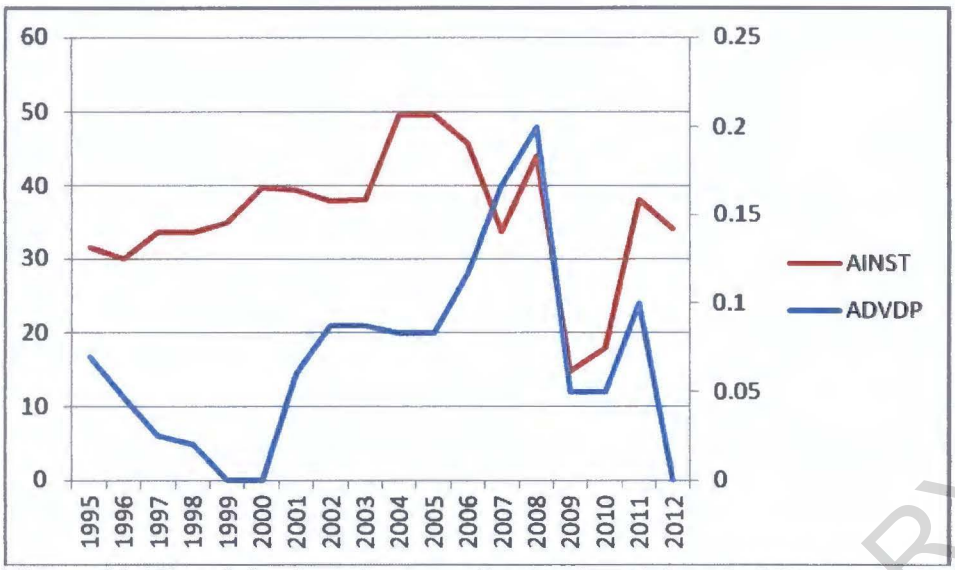


Figure 11: Trend Analysis between Institutional shareholding and Dividend Payouts in Automobiles/Tyres Subsector

Source: *Analysts' Data Services & Resources Limited*

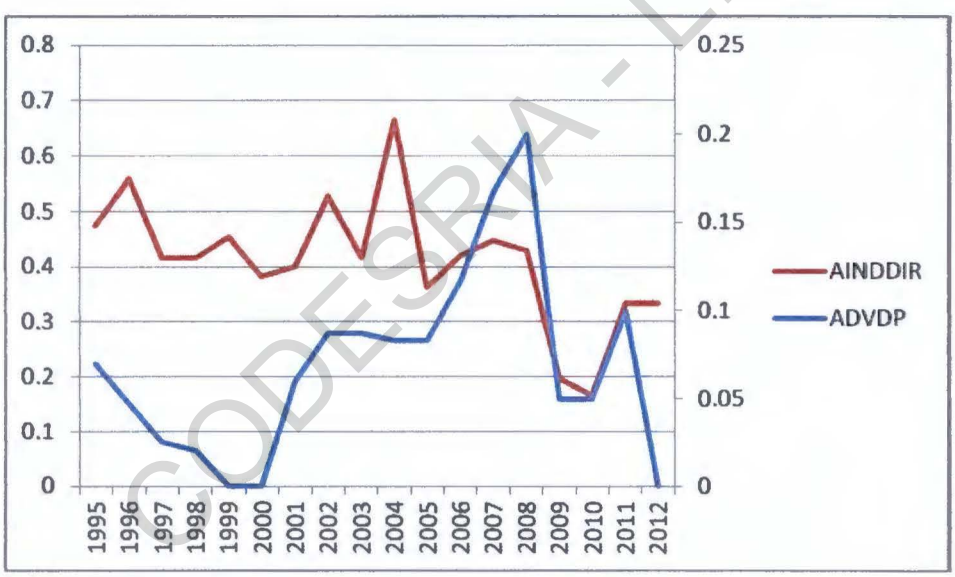


Figure 12: Trend Analysis between No. of Independent Directors and Dividend Payouts in Automobiles/Tyres Subsector

Source: *Analysts' Data Services & Resource Limited*

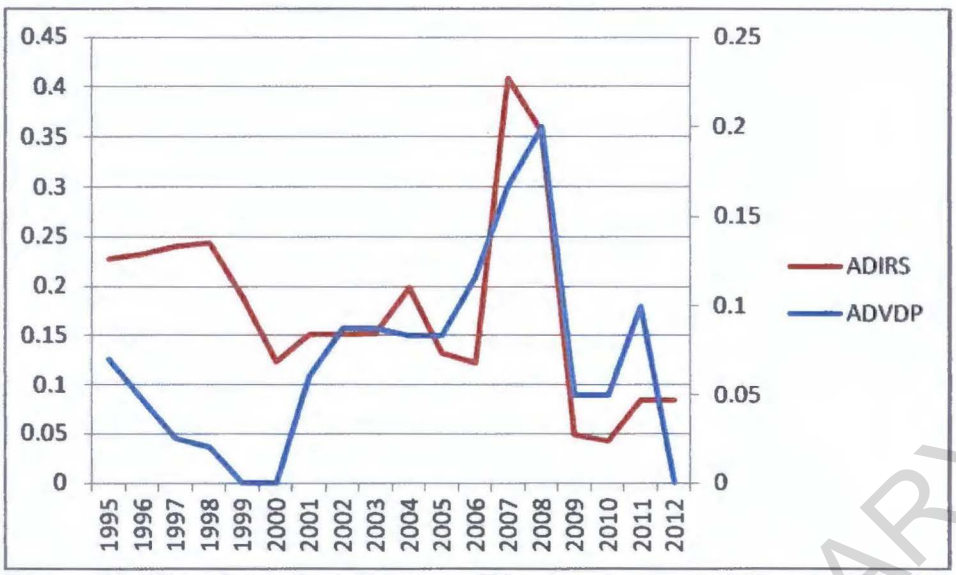


Figure 13: Trend Analysis between Directors' shareholding and Dividend Payouts in Automobiles/Tyres Subsector

Source: *Analysts' Data Services & Resources Limited*

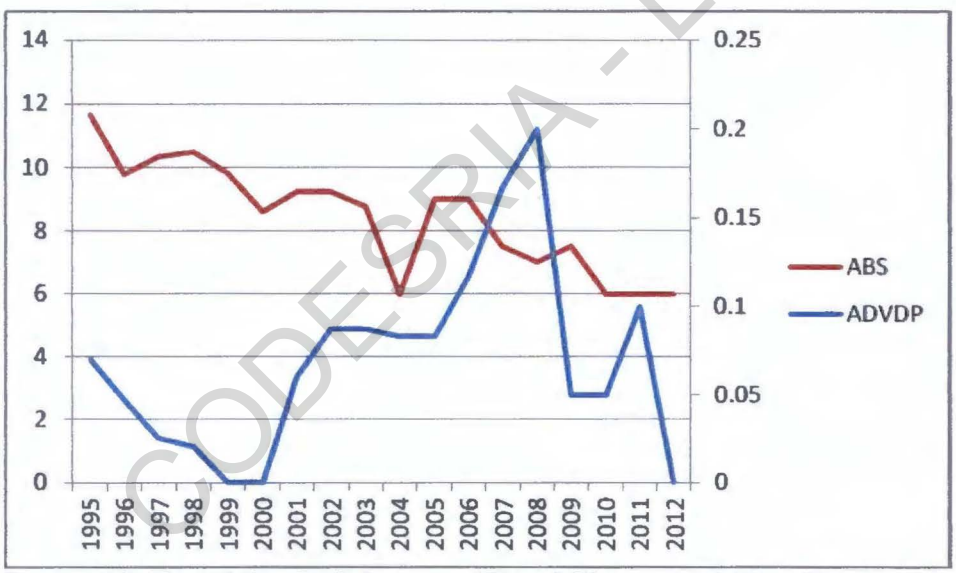


Figure 14: Trend Analysis between Board Size and Dividend Payouts in Automobiles/Tyres Subsector

Source: *Analysts' Data Services & Resources Limited*

2.4.3: Relationship between governance indicators and dividend payouts in Breweries subsector

Table 9 presents a trend analysis that shows the relationship between governance indicators (board size, number of independent directors, institutional shareholding and directors' shareholding) and dividend payouts (average dividend per share) in the breweries sub-sector. There were six listed firms in the sub-sector (Golden Guinea Breweries PLC, International Breweries PLC, Jos International Breweries PLC, Premier Breweries PLC, Guinness Nig. PLC and Nigerian Breweries PLC) within the period of analysis. From the table, dividends per share on the average ranged from 0.15 kobo in 1995 to 6.5 kobo in 2012. On the other hand, average institutional shareholding fluctuated around 41.90% and 68.3% between 1995 and 2012. Specifically, institutional shareholding in the sub-sector depicted an upward trend from 1997 to 2011 but nosedived significantly in 2012.

Moreover, the proportion of independent directors rose from about 40% in 1995 to 45% in 1998, while in 1999 the value fell to 42%. The proportion of independent directors in the sub-sector accounted for 60.7% in 2011 but rose slightly to 61.3% in 2012. Average board size in the periods under review ranged between 11 and 16. Directors' shareholding (proportion of directors' total shares in the paid up share) fell significantly from 7.8% in 1995 to 0.07% in 1999. In 2000, the value stood at 0.3% but fell to 0.03% in 2005. It fluctuated around 0.02% and 0.001% between 2011 and 2012.

Table 9: Relationship between governance indicators and dividend payouts in Breweries subsector

YEAR	AVERAGE DIVIDEND PAID (Kobo)	AVERAGE INSTITUTIONAL SHAREHOLDING (%)	AVERAGE NO OF INDEPENDENT DIRECTORS (%)	AVERAGE DIRECTORS SHAREHOLDING (%)	AVERAGE BOARD SIZE
1995	0.29	44.0	0.40	7.84	11
1996	0.35	45.5	0.41	0.07	12
1997	0.33	41.9	0.43	0.16	12
1998	0.16	52.7	0.45	0.12	11
1999	0.48	57.0	0.42	0.07	11
2000	0.80	62.1	0.59	0.29	10
2001	0.75	59.0	0.42	0.06	11
2002	1.17	58.2	0.45	0.07	13
2003	3.34	59.7	0.51	0.05	14
2004	1.94	59.7	0.58	0.06	13
2005	1.22	58.7	0.56	0.04	13
2006	1.73	59.7	0.62	0.04	13
2007	1.68	59.7	0.55	0.04	12
2008	3.12	59.7	0.66	0.02	14
2009	3.93	61.4	0.56	0.02	12
2010	3.68	64.3	0.65	0.02	14
2011	2.75	68.3	0.61	0.02	14
2012	6.5	61.0	0.61	0.01	16

***Source:** Analysts' Data Services & Resources Limited*

The trend is graphically represented in figures 15, 16, 17 and 18.

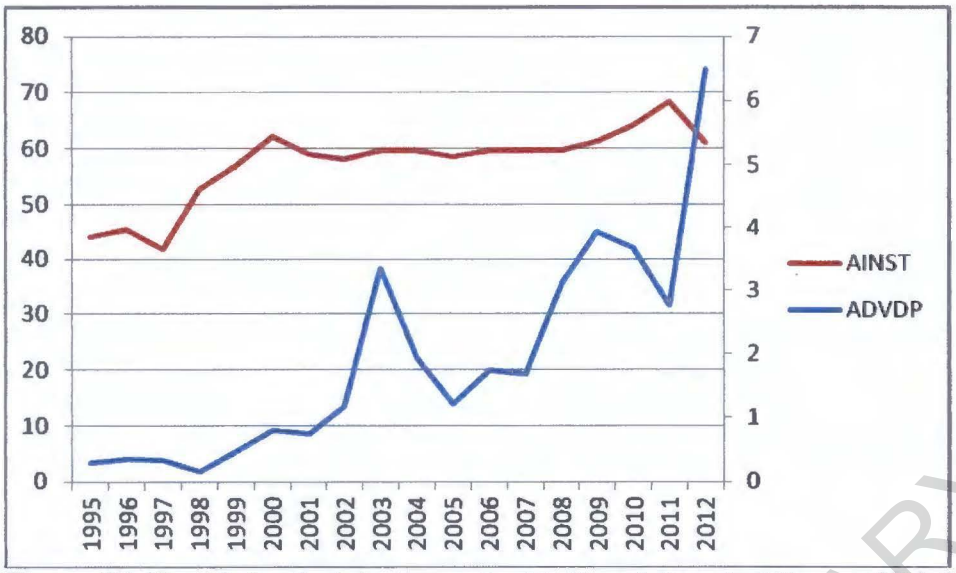


Figure 15: Trend Analysis between Institutional shareholding and Dividend Payouts in Breweries Subsector

Source: *Analysts' Data Services & Resources Limited*

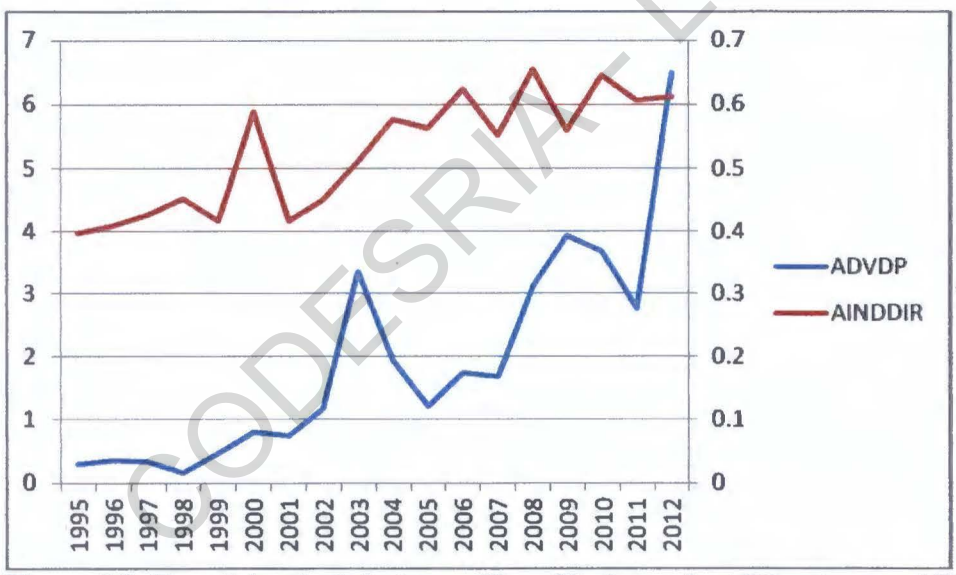


Figure 16: Trend Analysis between No. of Independent Directors and Dividend Payouts in Breweries Subsector

Source: *Analysts' Data Services & Resources Limited*

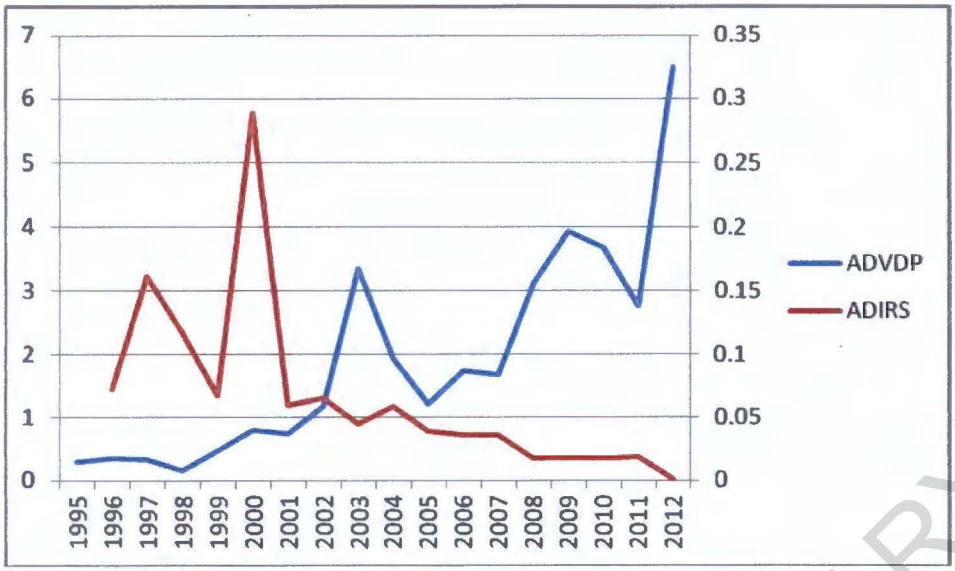


Figure 17: Trend Analysis between Directors' shareholding and Dividend Payouts in Breweries Subsector

Source: *Analysts' Data Services & Resources Limited*

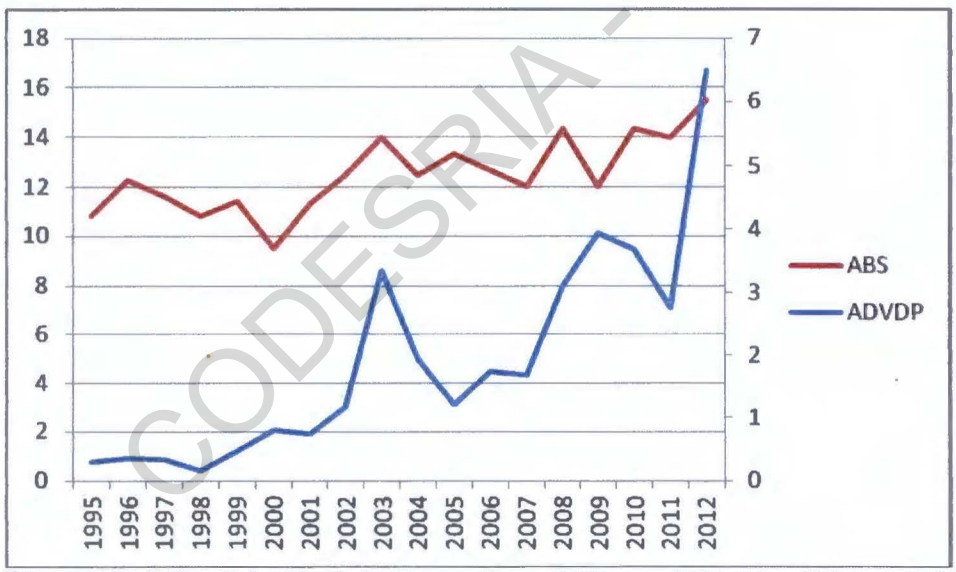


Figure 18: Trend Analysis between Board Size and Dividend Payouts in Breweries Subsector

Source: *Analysts' Data Services & Resources Limited*

2.4.4: Relationship between governance indicators and dividend payouts in Building Material subsector

Table 10 presents a trend analysis that shows the relationship between governance indicators (board size, number of independent directors, institutional shareholding and directors' shareholding) and dividend payouts (average dividend per share) in the building materials sub-sector. Eight listed firms were selected from it (Cement Company of Northern Nigeria PLC, Nigerian Rope PLC, Nigerian Wires and Cables PLC, Nigerian Wires Industries PLC, Lafarge Wapco PLC, Ashaka Cement PLC, Benue Cement Company PLC and Dangote Cement PLC) within the period of analysis. From the table, dividends per share on the average rose from 0.15 kobo in 1995 to 0.16 kobo in 1997. In 2003, no dividend was paid; however, dividends per share peaked at 0.5 kobo in 2004. Thereafter, a downward trend was witnessed till 2012. Average institutional shareholding fluctuated around 39.5% and 75.6% between 1995 and 2012. In 2000, the value stood at 52.5% and fell to 65.5% in 2004. An oscillation in institutional shareholding is seen from 69.3% in 2005 to 75.6% in 2010 but deepened to 64.3% in 2012.

On the other hand, the proportion of independent directors fell from 51% in 1995 to 44% in 1998, while in 1999 the value stood at 48%. The proportion of independent directors in the sub-sector accounted for 50% in 2001 but fell slightly to 48% in 2003 while it further deepened to 42.7% in 2004. The value fluctuated around 38.2% and 55.8% between 2005 and 2012. Directors' shareholding (proportion of directors' total shares in the paid up share) fell from 0.27% in 1995 to 0.15% in 1999. In 2000, the value stood at 0.24%, but fell to 0.17% in 2004. It fluctuated around 0.57% and 0.001% between 2005 and 2012. Board size averaged 11 in the periods under review.

Table 10: Relationship between governance indicators and dividend payouts in Building material subsector

YEAR	AVERAGE DIVIDEND PAID (Kobo)	AVERAGE INSTITUTIONAL SHAREHOLDING (%)	AVERAGE NO OF INDEPENDENT DIRECTORS (%)	AVERAGE DIRECTORS SHAREHOLDING (%)	AVERAGE BOARD SIZE
1995	0.15	45.1	0.52	0.27	11
1996	0.19	49.4	0.51	0.28	11
1997	0.16	48.1	0.42	0.32	11
1998	0.18	52.7	0.44	0.20	11
1999	0.10	56.1	0.48	0.15	13
2000	0.14	52.5	0.49	0.24	10
2001	0.15	57.7	0.50	0.10	10
2002	0.12	39.5	0.47	0.34	10
2003	0	61.8	0.48	0.16	9
2004	0.49	65.5	0.43	0.17	9
2005	0.39	69.3	0.38	0.57	11
2006	0.15	68.7	0.44	0.19	9
2007	0.28	72.9	0.56	0.25	13
2008	0.26	68.5	0.47	0.12	10
2009	0.14	75.0	0.53	0.02	10
2010	0.11	75.6	0.52	0.01	10
2011	0.32	66.7	0.47	0.01	10
2012	0.30	64.2	0.56	0.01	11

Source: *Analysts' Data Services & Resources Limited*

Graphically, the trend analysis in the table above is depicted in figures 19-22

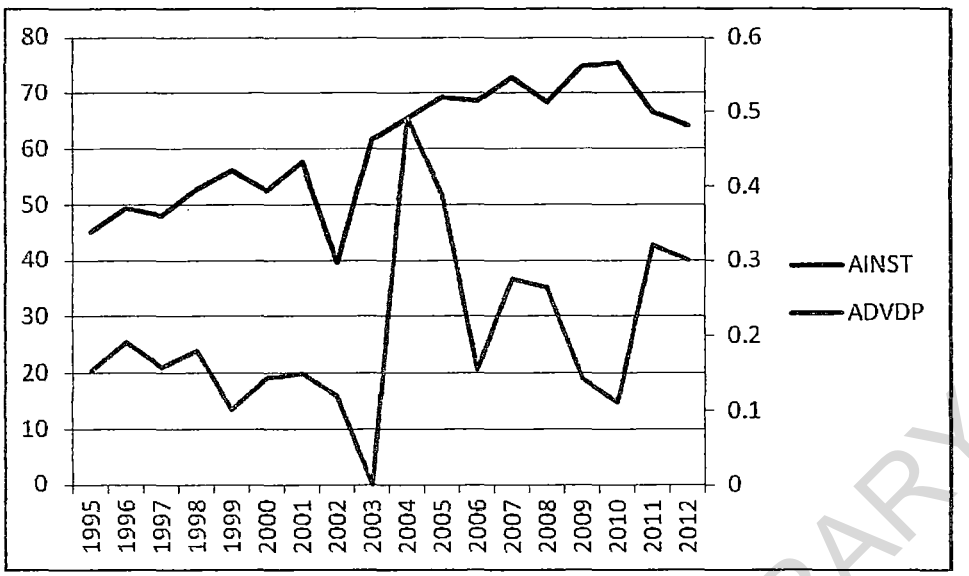


Figure 19: Trend Analysis between Institutional shareholding and Dividend Payouts in Building Material Subsector

Source: *Analysts' Data Services & Resources Limited*

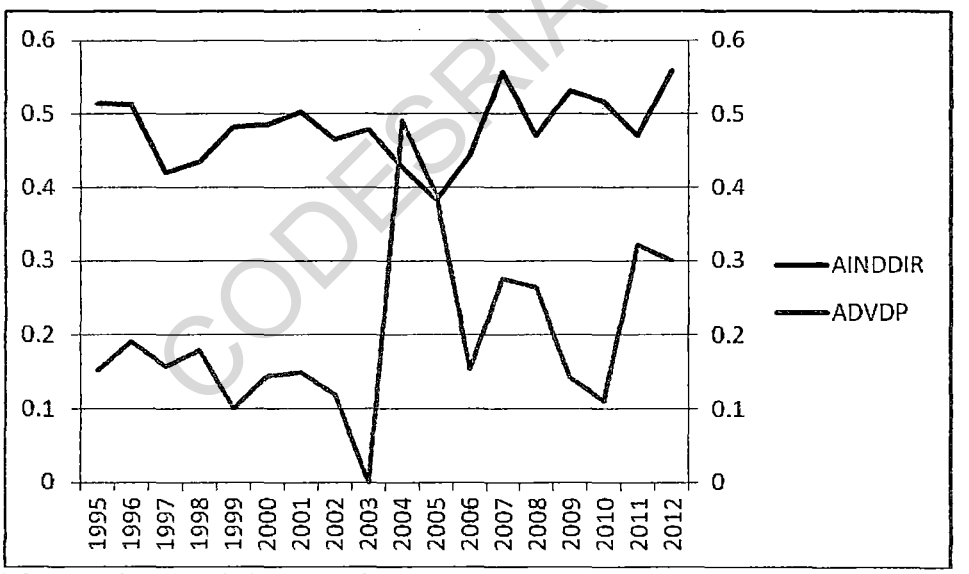


Figure 20: Trend Analysis between No. of Independent Directors' and Dividend Payouts in Building Material Subsector

Source: *Analysts' Data Services & Resources Limited*

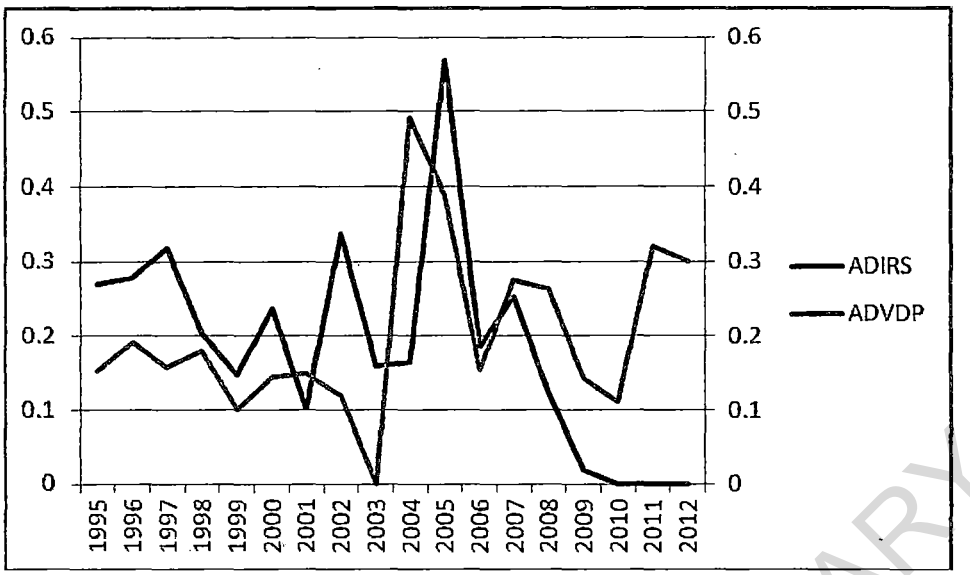


Figure 21: Trend Analysis between Directors' shareholding and Dividend Payouts in Building Material Subsector

Source: *Analysts' Data Services & Resources Limited*

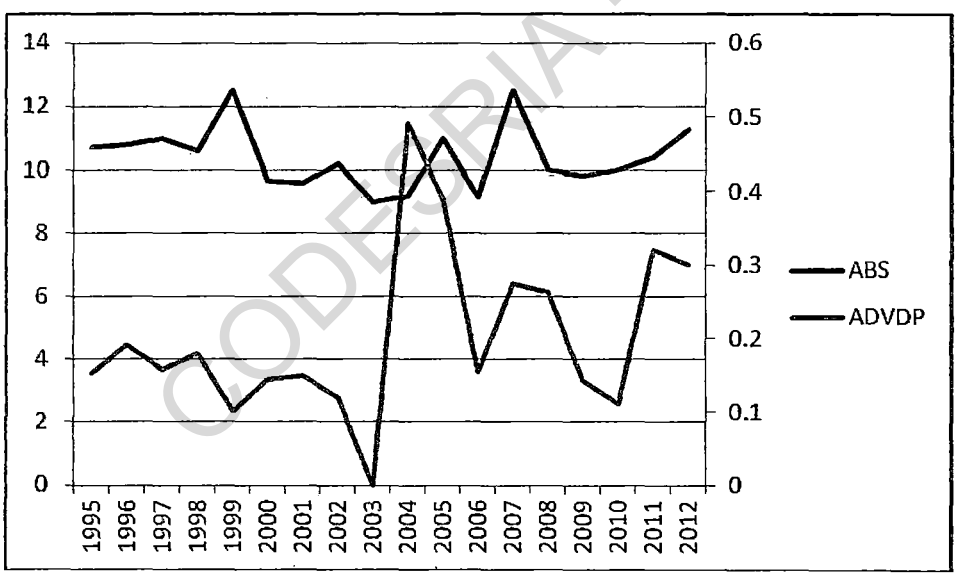


Figure 22: Trend Analysis between Board Size and Dividend Payouts in Building Material Subsector

Source: *Analysts' Data Services & Resources Limited*

2.4.5: Relationship between governance indicators and dividend payouts in Chemical/paints subsector

Table 11 presents a trend analysis that shows the relationship between governance indicators (board size, number of independent directors, institutional shareholding and directors' shareholding) and dividend payouts (average dividend per share) in the chemical/paints sub-sector. The sub-sector had eight listed firms (African Paints PLC, Berger Paints PLC, Chemical and Allied Products PLC, DN Meyer PLC, International Paints of West Africa PLC, Nigerian-German Chemicals PLC, Premier Paints PLC, Paints and Coating Manufacturers PLC and Portland Paints and Products PLC) within the period of analysis. It is noteworthy that dividend was paid throughout the periods of review. Dividends per share on the average as presented in the table fell from 0.24 kobo in 1995 to 0.1 kobo in 1997. In 2000, 0.06 kobo was paid; however, dividends per share peaked at 0.54 kobo in 2007, while it fell to 0.18 kobo in 2011 but soared to 0.39 kobo in 2012. On the other hand, average institutional shareholding ranged between 35.9% and 23.4% between 1995 and 2012. Specifically, institutional shareholding in the sub-sector fell from 35.9% in 1995 to 33.2% in 1999. In 2000, the value stood at 36.2% and fell to 35.7% in 2004. A deepen trend in institutional shareholding is seen from 2010 to 2012.

Average board size in the periods under review ranged between 7 and 9. The proportion of independent directors rose from about 18% in 1995 to 33% in 1998. It accounted for 16% in 2001 but increased to 29.7% in 2003 and rose to 37.7% in 2004. It oscillated around 32.8% and 34.1% between 2005 and 2012. Directors' shareholding (proportion of directors' total shares in the paid up share) fell from 2.6% in 1995 to 0.25% in 1999. It fluctuated around 0.21% and 0.34% between 2005 and 2012.

Table 10: Relationship between governance indicators and dividend payouts in Building material subsector

YEAR	AVERAGE DIVIDEND PAID (Kobo)	AVERAGE INSTITUTIONAL SHAREHOLDING (%)	AVERAGE NO OF INDEPENDENT DIRECTORS (%)	AVERAGE DIRECTORS SHAREHOLDING (%)	AVERAGE BOARD SIZE
1995	0.15	45.1	0.52	0.27	11
1996	0.19	49.4	0.51	0.28	11
1997	0.16	48.1	0.42	0.32	11
1998	0.18	52.7	0.44	0.20	11
1999	0.10	56.1	0.48	0.15	13
2000	0.14	52.5	0.49	0.24	10
2001	0.15	57.7	0.50	0.10	10
2002	0.12	39.5	0.47	0.34	10
2003	0	61.8	0.48	0.16	9
2004	0.49	65.5	0.43	0.17	9
2005	0.39	69.3	0.38	0.57	11
2006	0.15	68.7	0.44	0.19	9
2007	0.28	72.9	0.56	0.25	13
2008	0.26	68.5	0.47	0.12	10
2009	0.14	75.0	0.53	0.02	10
2010	0.11	75.6	0.52	0.01	10
2011	0.32	66.7	0.47	0.01	10
2012	0.30	64.2	0.56	0.01	11

Source: *Analysts' Data Services & Resources Limited*

Graphically, the trend analysis in the table above is depicted in figures 19-22

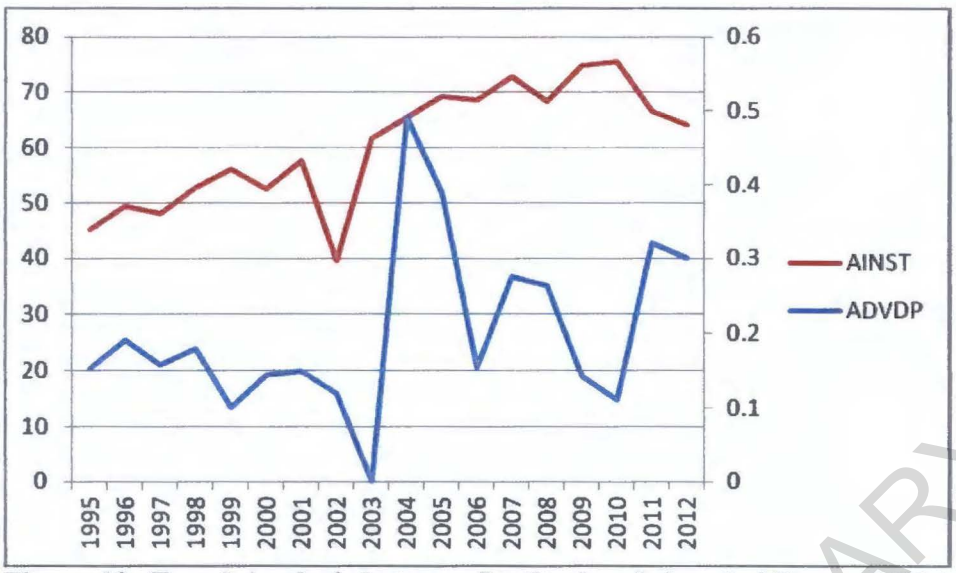


Figure 19: Trend Analysis between Institutional shareholding and Dividend Payouts in Building Material Subsector

Source: *Analysts' Data Services & Resources Limited*

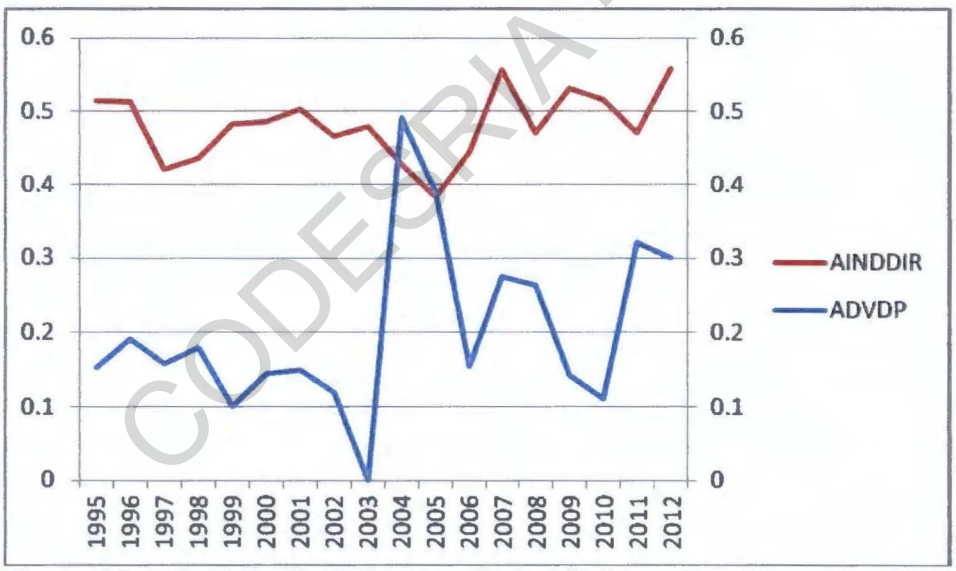


Figure 20: Trend Analysis between No. of Independent Directors' and Dividend Payouts in Building Material Subsector

Source: *Analysts' Data Services & Resources Limited*

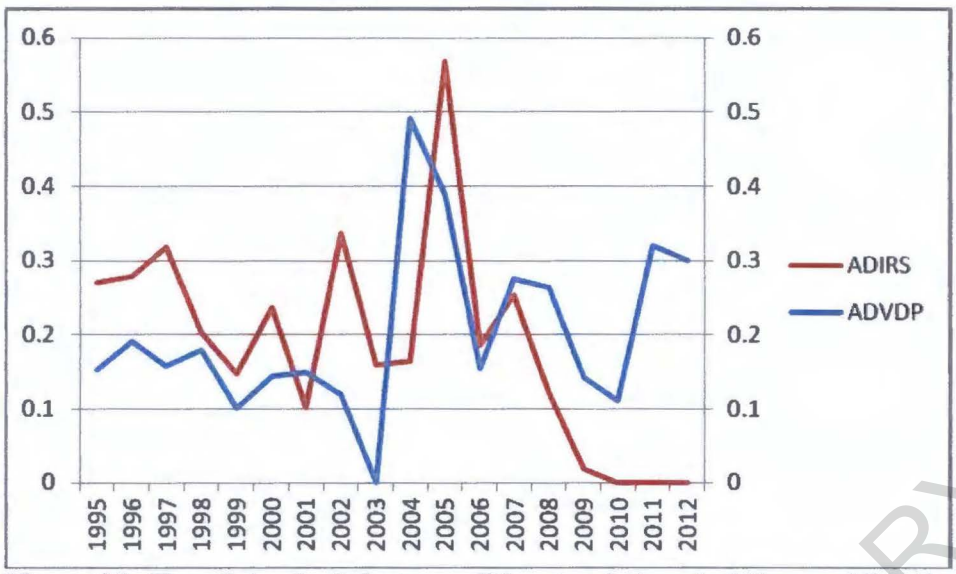


Figure 21: Trend Analysis between Directors' shareholding and Dividend Payouts in Building Material Subsector

***Source:** Analysts' Data Services & Resources Limited*

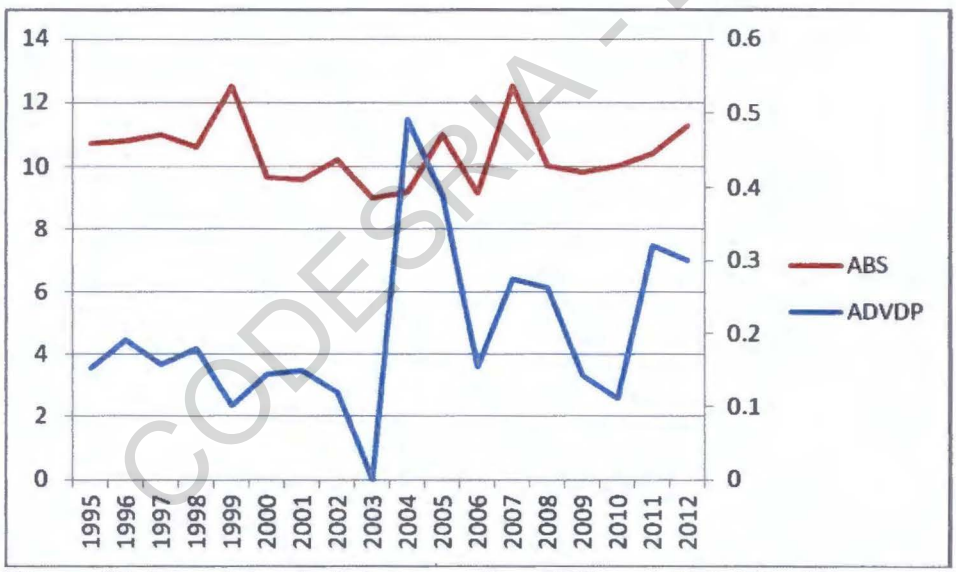


Figure 22: Trend Analysis between Board Size and Dividend Payouts in Building Material Subsector

***Source:** Analysts' Data Services & Resources Limited*

2.4.6: Relationship between governance indicators and dividend payouts in Conglomerates subsector

Table 13 presents a trend analysis that shows the relationship between governance indicators (board size, number of independent directors, institutional shareholding and directors' shareholding) and dividend payouts (average dividend per share) in the conglomerates sub-sector. There were eight quoted firms in the sub-sector (Chellarams PLC, PZ Cussons Nig. PLC, John Holts PLC, A. G. Leventis Nig. PLC, CFAO Nig. PLC, SCOA Nig. PLC, U.A.C.N. PLC and Unilever Nigeria PLC) within the period of analysis. From the table, dividends per share on the average fell from 0.23 kobo in 1995 to 0.18 kobo in 1997, deepened still to 0.074 kobo in 1999. In 2000, 0.17 kobo dividend was paid; however, dividends per share peaked at 0.40 kobo in 2004. The value further rose to 0.41 kobo in 2008 to 0.11kobo in 2008 but fell to 0.21 kobo in 2012.

On the other hand, average institutional shareholding fluctuated around 44.77% and 25.85% between 1995 and 2012. Specifically, institutional shareholding in the sub-sector rose from 41.6% in 1996 to 47.6% in 1999. Institutional investors in the conglomerates sub-sector on the average accounted for 46.7% in 2005, while in 2009 the value fell to 44.6%. A steady fell in institutional shareholding is seen from 44.9% in 2010 to 25.85 in 2012. The proportion of independent directors increased from about 37% in 1995 to 47% in 1998, while in 1999 the value stood at 51%. The proportion of independent directors in the sub-sector accounted for 60% in 2001 but fell significantly to 46.4% in 2003. The value fluctuated around 51% and 44% between 2005 and 2012. Directors' shareholding (proportion of directors' total shares in the paid up share) fell from 34.4% in 1995 to 37.2% in 2000 and further fell to 0.07% in 2004. The downward trend continued till

2008, significantly appreciated in 2009 but deepened to 10.4% in 2012. Average board size in the period under review ranged between 9 and 12.

Table 13: Relationship between governance indicators and dividend payouts in Conglomerates subsector

YEAR	AVERAGE DIVIDEND PAID (Kobo)	AVERAGE INSTITUTIONAL SHAREHOLDING (%)	AVERAGE NO OF INDEPENDENT DIRECTORS (%)	AVERAGE DIRECTORS SHAREHOLDING (%)	AVERAGE BOARD SIZE
1995	0.23	44.8	0.37	0.34	10
1996	0.33	41.5	0.48	0.71	12
1997	0.18	47.9	0.37	1.38	11
1998	0.10	55.1	0.46	0.18	10
1999	0.07	48.0	0.51	0.12	9
2000	0.17	54.6	0.47	0.37	9
2001	0.30	61.8	0.60	0.06	9
2002	0.22	49.3	0.42	0.08	9
2003	0.23	31.5	0.46	0.01	10
2004	0.40	53.6	0.47	0.01	10
2005	0.15	46.8	0.51	0.06	11
2006	0.27	56.3	0.46	0.07	10
2007	0.40	41.8	0.42	0.01	11
2008	0.41	47.5	0.47	0.08	11
2009	0.28	44.6	0.46	2.82	10
2010	0.26	44.9	0.45	0.10	11
2011	0.32	45.1	0.38	0.12	9
2012	0.21	25.9	0.44	0.10	9

Source: *Analysts' Data Services & Resources Limited*

Graphically, the trend analysis in the table above is depicted in figures 27-30

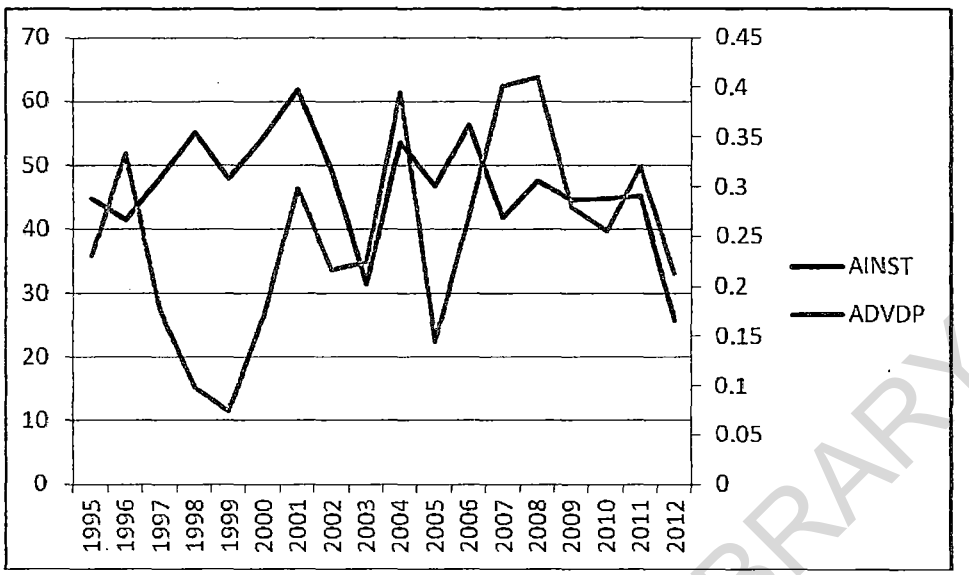


Figure 27: Trend Analysis between Institutional shareholding and Dividend Payouts in Conglomerates Subsector

Source: *Analysts' Data Services & Resources Limited*

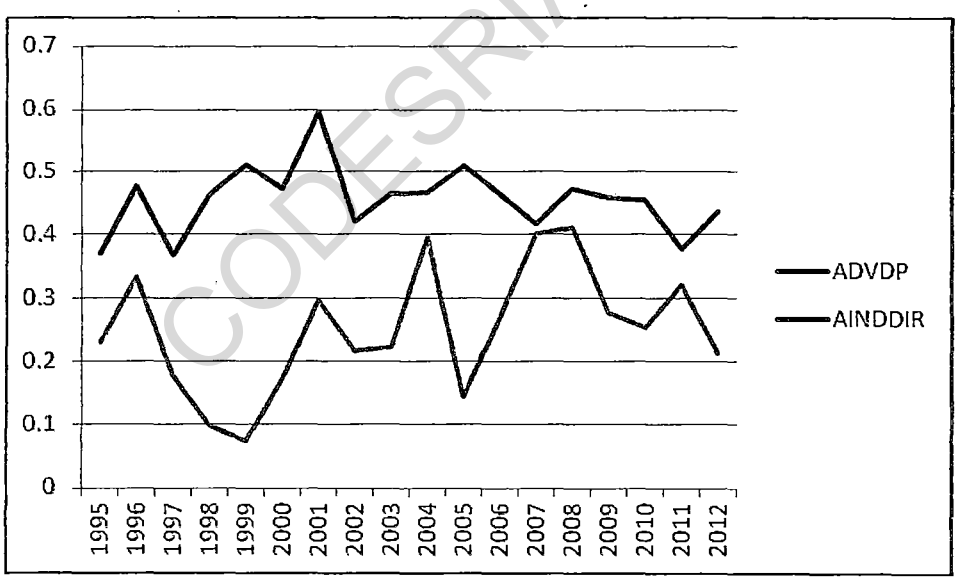


Figure 28: Trend Analysis between No. of Independent Directors and Dividend Payouts in Conglomerates Subsector

Source: *Analysts' Data Services & Resources Limited*

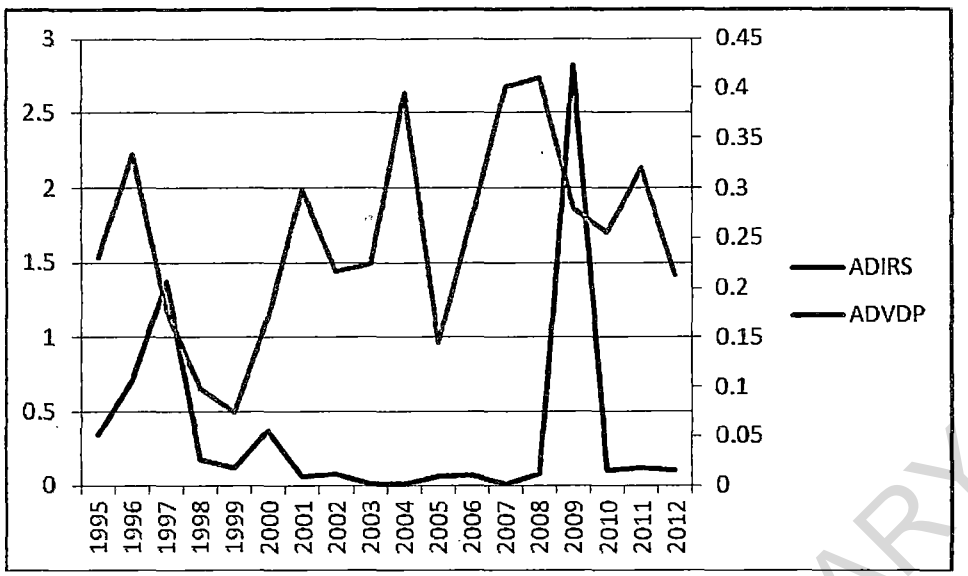


Figure 29: Trend Analysis between Directors' shareholding and Dividend Payouts in Conglomerates Subsector

Source: *Analysts' Data Services & Resources Limited*

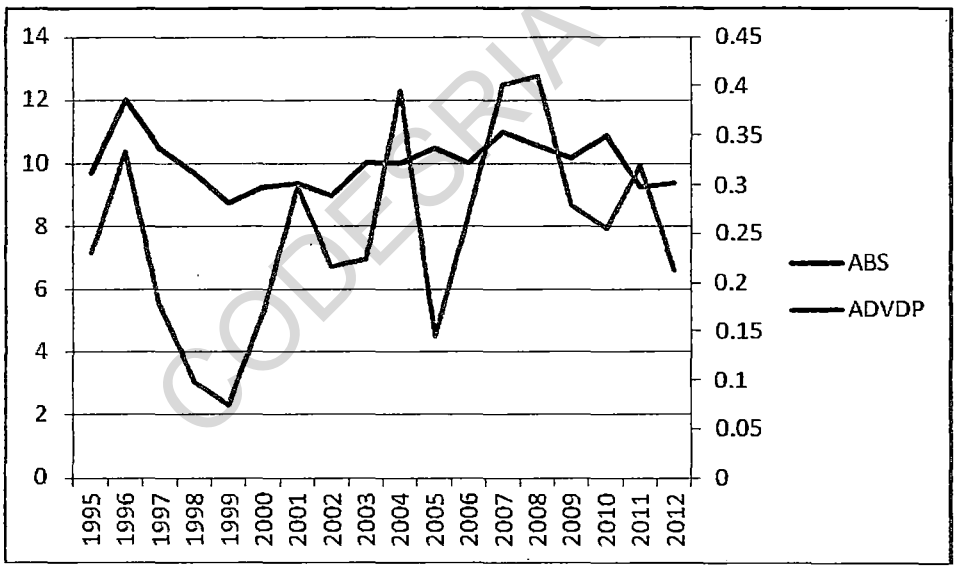


Figure 30: Trend Analysis between Board Size and Dividend Payouts in Conglomerates Subsector

Source: *Analysts' Data Services & Resources Limited*

2.4.7: Relationship between governance indicators and dividend payouts in Construction subsector

Table 14 presents a trend analysis that shows the relationship between governance indicators (board size, number of independent directors, institutional shareholding and directors' shareholding) and dividend payouts (average dividend per share) in the construction sub-sector. The sub-sector comprised of six listed firms (Afribisco PLC, Cappa and Dalberto PLC, G. Cappa PLC, Julius Berger Nig. PLC, Costain WA PLC and Roads Nig. PLC) within the period of analysis. The table depicts that dividends per share on the average rose from 0.18 kobo in 1995 to 0.19 kobo in 1998 and fell to 0.17 kobo in 2000. It fluctuated between 0.28 kobo and 0.58 kobo between 2001 and 2007; however, it peaked at 0.97 kobo in 2011 but fell significantly to 0.20 kobo in 2012. In addition, average institutional shareholding fluctuated around 52.8% and 0% between 1995 and 2012. Specifically, institutional shareholding in the sub-sector rose from 52.8% in 1995 to 57.3% in 2000 but stood at 64.4% in 2005. It deepened further, and stood at 41.3% in 2010 but became 0% in 2012.

On the other hand, the proportion of independent directors fell from about 0.53% in 1995 to 0.41% in 2000. The proportion of independent directors in this sub-sector stood at 0.62% in 2001. The value fluctuated around 0.44% and 0.43% between 2005 and 2012. Directors' shareholding (proportion of directors' total shares in the paid up share) rose from 0.15% in 1995 to 0.17% in 1999. In 2000, the value stood at 0.35%, but rose to 0.67% in 2004. It fluctuated around 0.63% and 0.09% between 2005 and 2009, while it peaked at 0.27% in 2012. Average board size in the period under review ranged between 7 and 10.

Table 14: Relationship between governance indicators and dividend payouts in Construction subsector

YEAR	AVERAGE DIVIDEND PAID (Kobo)	AVERAGE INSTITUTIONAL SHAREHOLDING (%)	AVERAGE NO OF INDEPENDENT DIRECTORS (%)	AVERAGE DIRECTORS SHAREHOLDING (%)	AVERAGE BOARD SIZE
1995	0.18	52.8	0.53	0.15	9
1996	0.17	52.8	0.50	0.15	10
1997	0.24	36.9	0.49	0.14	9
1998	0.19	51.1	0.48	0.15	10
1999	0.16	53.3	0.53	0.17	10
2000	0.17	57.3	0.41	0.35	10
2001	0.29	62.1	0.36	9.89	10
2002	0.13	55.9	0.34	19.4	9
2003	0.12	65.3	0.29	30.2	9
2004	0.18	64.9	0.44	0.67	10
2005	0.40	64.4	0.44	0.63	10
2006	0.30	73.7	0.54	0.47	10
2007	0.58	61.0	0.62	0.81	9
2008	0.10	64.3	0.62	0.70	8
2009	0.11	29.9	0.66	0.09	8
2010	0.83	41.3	0.62	0.12	7
2011	0.97	22	0.55	0.19	7
2012	0.20	0	0.43	0.27	7

Source: *Analysts' Data Services & Resources Limited*

Graphically, the trend analysis in the table above is depicted in figures 31-34

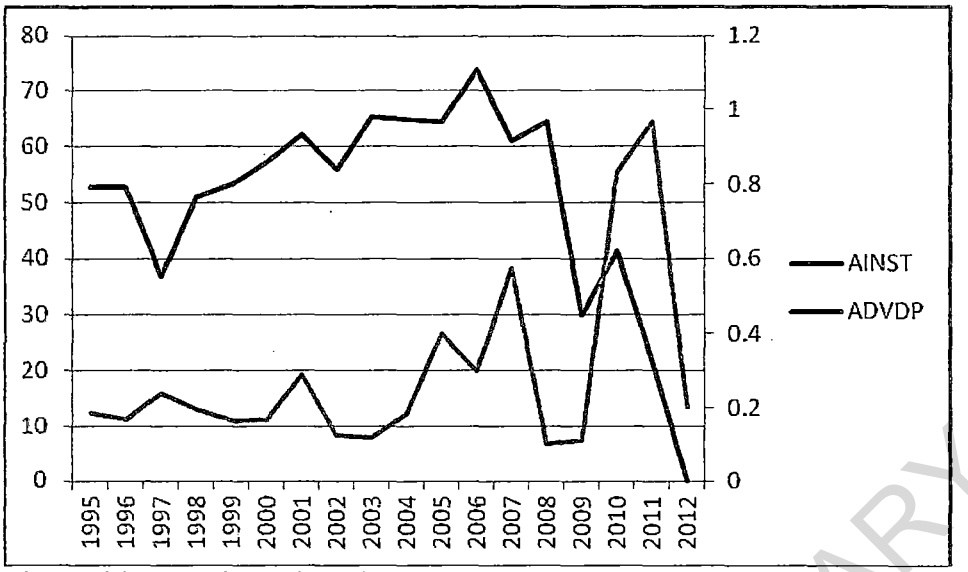


Figure 31: Trend Analysis between Institutional shareholding and Dividend Payouts in Construction Subsector

Source: *Analysts' Data Services & Resources Limited*

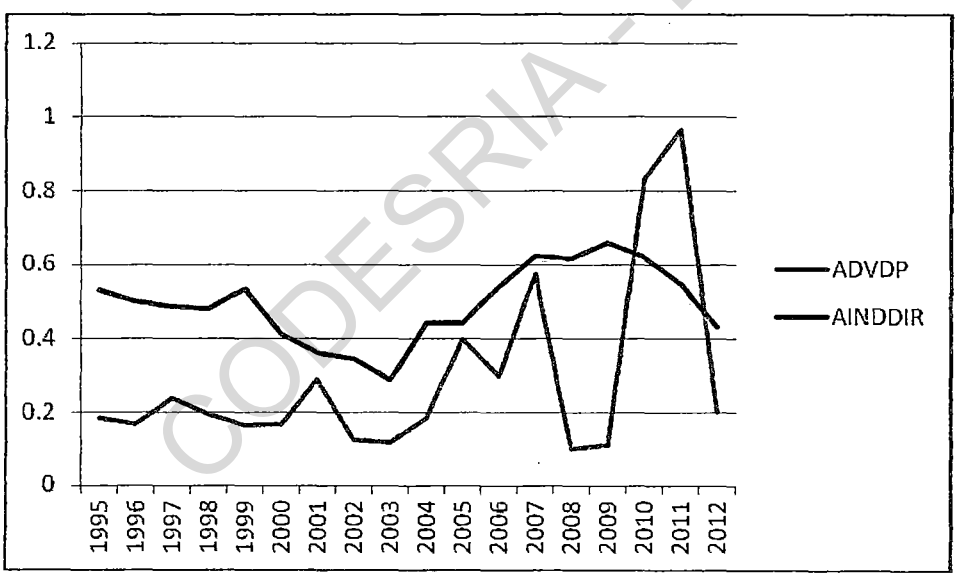


Figure 32: Trend Analysis between No. of Independent Directors and Dividend Payouts in Construction Subsector

Source: *Analysts' Data Services & Resources Limited*

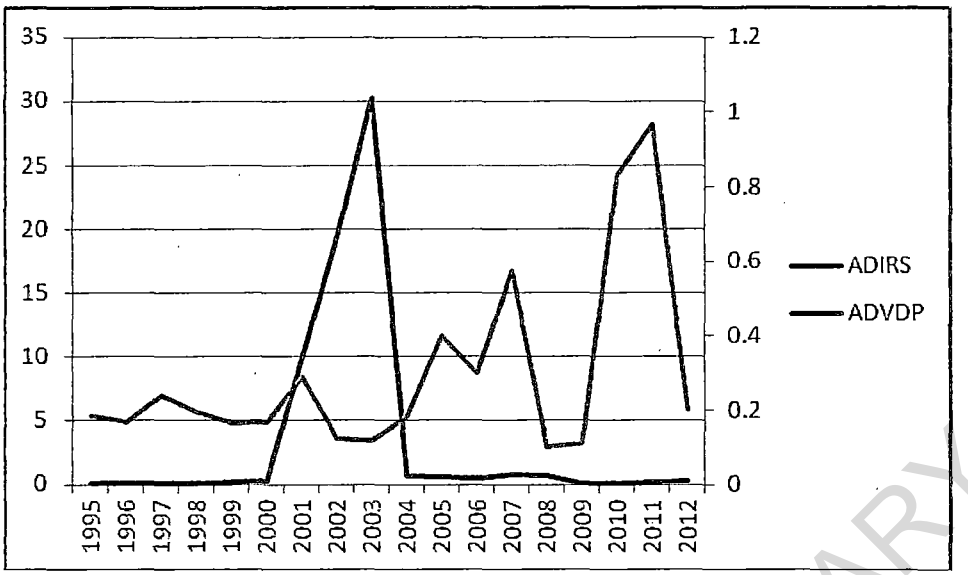


Figure 33: Trend Analysis between Directors' shareholding and Dividend Payouts in Construction Subsector

Source: *Analysts' Data Services & Resources Limited*

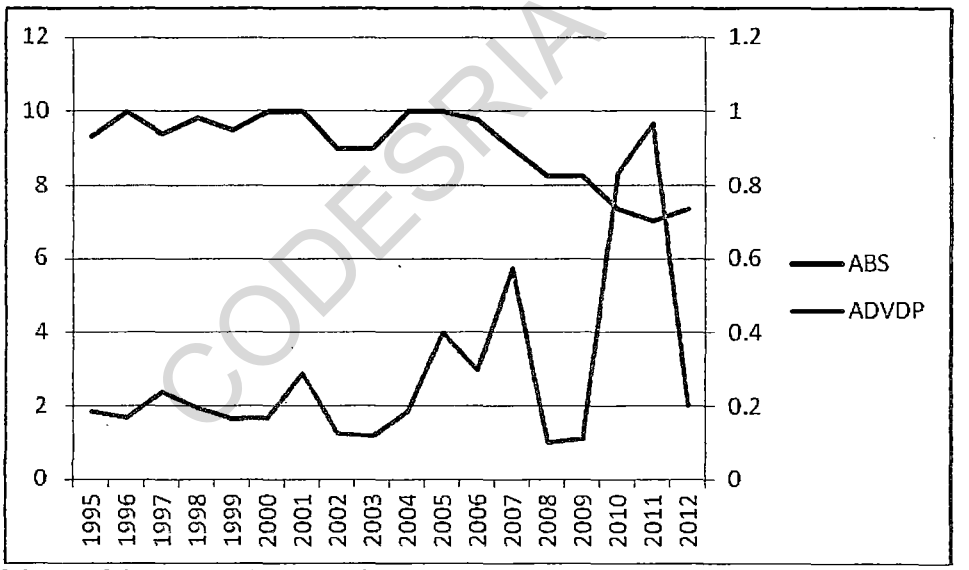


Figure 34: Trend Analysis between Board Size and Dividend Payouts in Construction Subsector

Source: *Analysts' Data Services & Resources Limited*

2.4.8: Relationship between governance indicators and dividend payouts in food & Beverages subsector

Trend analysis that shows the relationship between governance indicators (board size, number of independent directors, institutional shareholding and directors' shareholding) and dividend payouts (average dividend per share) in the food & beverages sub-sector is represented in table 15. The sub-sector comprised of seventeen listed firms (Union Dicon Salt PLC, Cadbury Nig. PLC, Flour Mills of Nigeria PLC, Nestle Nig. PLC, Nigerian Bottling Company PLC, Nigerian Tobacco Company PLC, UTC Nigeria PLC, 7-UP Bottling Company PLC, National Salt Company Nig. PLC, Northern Nig. Flour Mills PLC, PS Mandrels & Co. PLC, Tantalizers PLC, Dangote Flour Mills PLC, Dangote Sugar Refinery PLC, Big Treat PLC, Honeywell Flour Mills PLC and Multi-Trex Integrated Foods PLC) within the period of analysis. From the table, dividends per share on the average increased from 0.35 kobo in 1995 to 0.41 kobo in 1997, while it fell to 0.34 kobo in 1999. In 2000, 0.38 kobo was paid; however, dividends per share peaked at 0.75 kobo in 2003, while it rose to 0.78 kobo in 2004. The value later fell from 0.51 kobo in 2005 to 0.22 kobo in 2008 but peaked at 0.33 kobo in 2011 and fell further in 2012. On the other hand, average institutional shareholding fluctuated around 46.4% and 39% between 1995 and 2012. Specifically, institutional shareholding in the sub-sector rose from 46.4% in 1995 to 52.4% in 1999. In 2000, the value stood at 54% and fell to 52.6% in 2004. Institutional investors in the food and beverages sub-sector on the average accounted for 47.3% in 2005. A steady decline in institutional shareholding is seen from 55.8% in 2010 to 38.7% in 2012.

On the other hand, the proportion of independent directors increased from about 48.4% in 1995 to 54% in 1998, while it slightly declined in 1999 to 53.8%. The proportion of

independent directors in the sub-sector accounted for 53.9% in 2001 but fell slightly to 46.5% in 2003. The value fluctuated around 53.9% and about 46% between 2005 and 2012. Directors' shareholding (proportion of directors' total shares in the paid up share) rose from 0.06% in 1995 to 0.39% in 1999. In 2000, the value stood at 0.03%, but rose to 0.05% in 2005. It fluctuated around 0.17% and 0.08% between 2006 and 2012 Average board size in the periods under review ranged between 9 and 12.

Table 15: Relationship between governance indicators and dividend payouts in Food & Beverages subsector

YEAR	AVERAGE DIVIDEND PAID (Kobo)	AVERAGE INSTITUTIONAL SHAREHOLDING (%)	AVERAGE NO OF INDEPENDENT DIRECTORS (%)	AVERAGE DIRECTORS SHAREHOLDING (%)	AVERAGE BOARD SIZE
1995	0.35	46.4	0.48	0.06	12
1996	0.41	50.9	0.38	0.05	11
1997	0.41	51.7	0.54	0.04	12
1998	0.37	46.3	0.54	0.03	11
1999	0.34	52.4	0.54	0.40	11
2000	0.38	54.0	0.48	0.03	11
2001	0.46	38.7	0.54	0.03	11
2002	0.70	42.9	0.47	0.06	10
2003	0.75	56.5	0.47	0.04	10
2004	0.78	52.6	0.44	0.04	10
2005	0.52	47.3	0.54	0.05	10
2006	0.35	47.6	0.52	0.17	10
2007	0.26	50.2	0.49	0.10	10
2008	0.22	53.8	0.43	0.09	10
2009	0.21	52.2	0.42	0.17	9
2010	0.15	55.8	0.42	0.12	10
2011	0.33	50.7	0.41	2.88	10
2012	0.23	38.7	0.46	0.08	11

Source: *Analysts' Data Services & Resources Limited*

Graphically, the trend analysis in the table above is depicted in figures 35-38

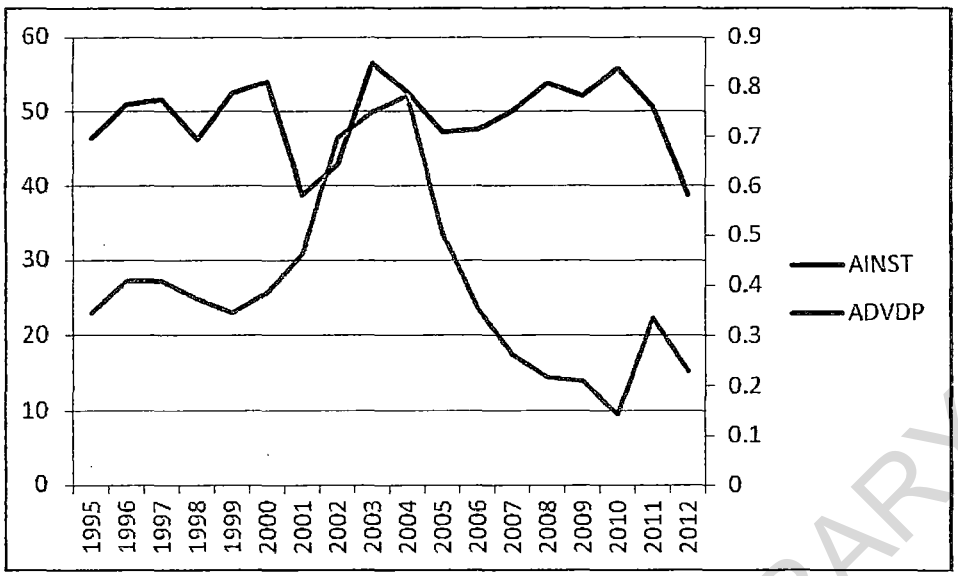


Figure 35: Trend Analysis between Institutional shareholding and Dividend Payouts in Food & Beverages Subsector

Source: *Analysts' Data Services & Resources Limited*

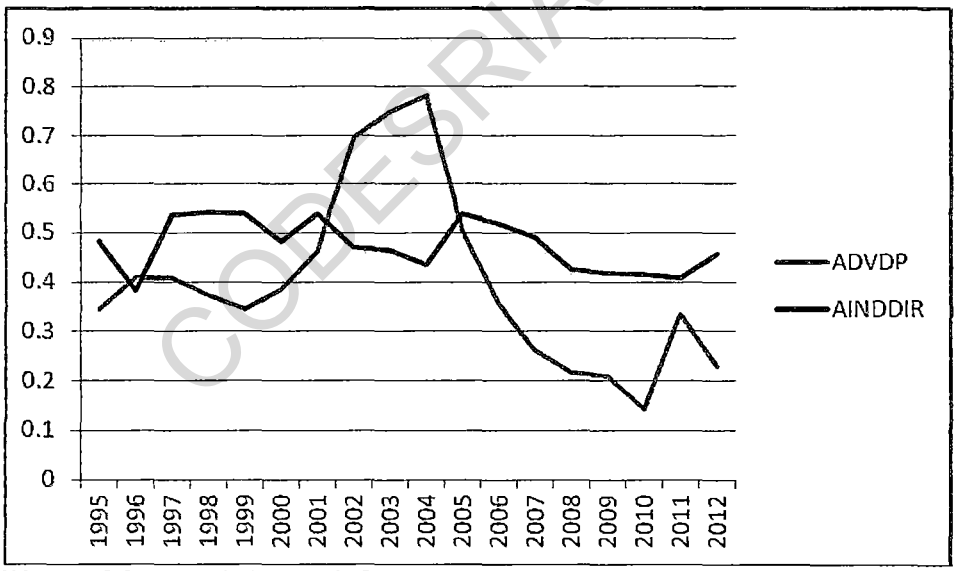


Figure 36: Trend Analysis between No. of Independent Directors and Dividend Payouts in Food & Beverages Subsector

Source: *Analysts' Data Services & Resources Limited*

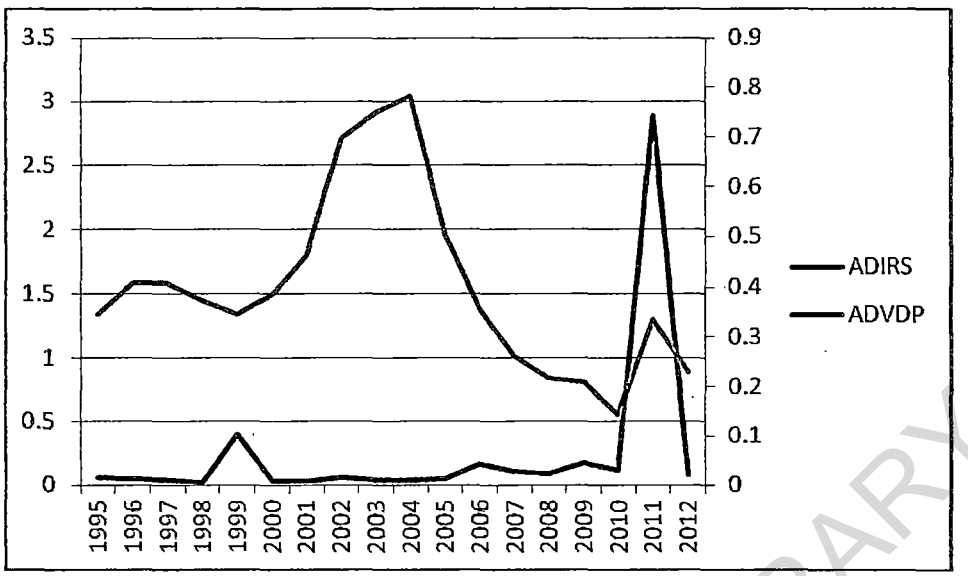


Figure 37: Trend Analysis between Directors' shareholding and Dividend Payouts in Food & Beverages Subsector

Source: *Analysts' Data Services & Resources Limited*

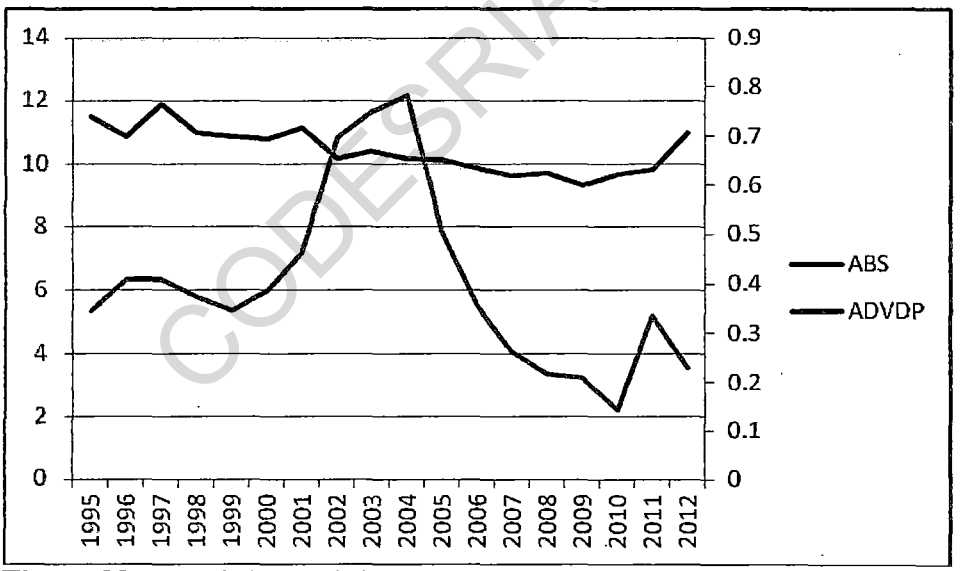


Figure 38: Trend Analysis between Board Size and Dividend Payouts in Food & Beverages Subsector

Source: *Analysts' Data Services & Resources Limited*

2.4.9: Relationship between governance indicators and dividend payouts in Healthcare sub-sector

Table 16 presents a trend analysis that shows the relationship between governance indicators (board size, number of independent directors, institutional shareholding and directors' shareholding) and dividend payouts (average dividend per share) in the health care sub-sector. Eleven listed firms were selected from this sub-sector (Smithkline Beecham Nid. PLC, aboseldehyde Labs PLC, Christlieb PLC, Ekocorp PLC, Evans Medical PLC, May & Baker Nig. PLC, Morison Industries PLC, Neimeth Int'l Pharmaceutical PLC, Pharma-Deko PLC, Glaxo Smithkline Consumer Nig. PLC and Fidson health care PLC) within the period of analysis. From the table, dividends per share on the average increased from 0.18 kobo in 1995 to 0.36 kobo in 1997, while it fell to 0.09 kobo in 1999. In 2000, 0.04 kobo was paid as a dividend; however, it rose to 0.17 kobo in 2005, while it fell to 0.12 kobo in 2008. It marginally increased in 2009 but returned to 0.12 kobo in 2012. On the other hand, average institutional shareholding fluctuated around 27.8% and 30.5% between 1995 and 2012. It rose from 33.1% in 1996 to 39.7% in 2000. In 2001, the value stood at 31.1% and slightly increased to 31.8% in 2005. Institutional investors in this sub-sector rose from 24.2% in 2009 to 30.5% in 2012. Average board size in the period under review ranged between 7 and 10.

Moreover, the proportion of independent directors decreased from about 0.22% in 1995 to 0.17% in 1998, while in 1999 the value stood at 0.35%. The proportion of independent directors in the sub-sector accounted for 0.24% in 2001 but fell slightly to 0.15% in 2004. The value fluctuated around 0.10% and 0.33% between 2005 and 2012. Directors' shareholding (proportion of directors' total shares in the paid up share) rose from 0.24% in 1995 to 0.32% in 2002. In 2003, the value stood at 0.68%, but fell to 0.27% in 2006. It

fluctuated around 0.31% and 0.30% between 2008 and 2010, while it significantly rose to 1.2% in 2012.

Table 16: Relationship between governance indicators and dividend payouts in Healthcare sub-sector

YEAR	AVERAGE DIVIDEND PAID (Kobo)	AVERAGE INSTITUTIONAL SHAREHOLDING (%)	AVERAGE NO OF INDEPENDENT DIRECTORS (%)	AVERAGE DIRECTORS SHAREHOLDING (%)	AVERAGE BOARD SIZE
1995	0.18	27.8	0.22	0.24	9
1996	0.17	33.1	0.20	0.25	10
1997	0.36	38.3	0.25	0.31	10
1998	0.26	30.1	0.17	0.21	10
1999	0.09	29.6	0.35	0.08	8
2000	0.04	39.7	0.23	0.25	9
2001	0.09	35.1	0.24	0.22	8
2002	0.06	32.6	0.09	0.32	7
2003	0.14	37.9	0.21	0.68	9
2004	0.11	37.5	0.15	0.33	9
2005	0.17	31.8	0.10	0.35	9
2006	0.14	29.9	0.15	0.27	9
2007	0.43	25.7	0.17	0.31	9
2008	0.12	20.5	0.08	0.31	9
2009	0.20	24.2	0.11	0.28	9
2010	0.19	20.4	0.26	0.30	10
2011	0.18	18.9	0.23	0.28	10
2012	0.12	30.6	0.33	1.20	10

Source: *Analysts' Data Services & Resources Limited*

Graphically, the trend analysis in the table above is depicted in figures 39-42

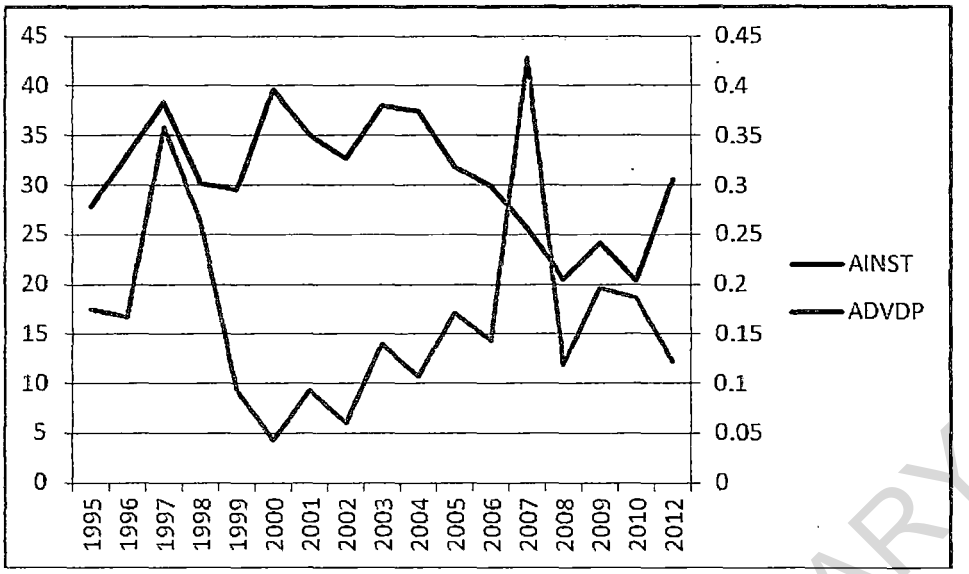


Figure 39: Trend Analysis between Institutional shareholding and Dividend Payouts in Healthcare Subsector

Source: *Analysts' Data Services & Resources Limited*

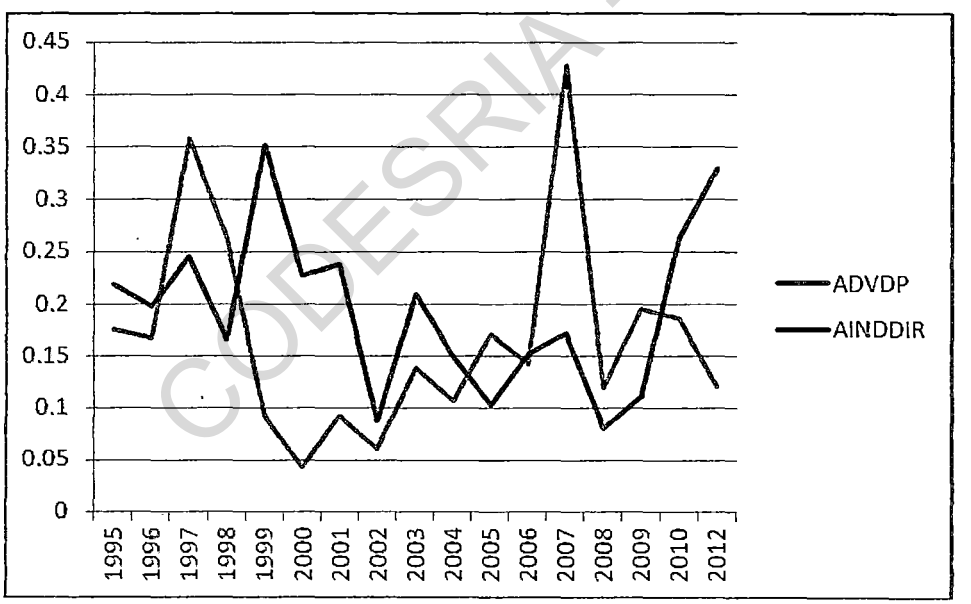


Figure 40: Trend Analysis between No. of Independent Directors and Dividend Payouts in Healthcare Subsector

Source: *Analysts' Data Services & Resources Limited*

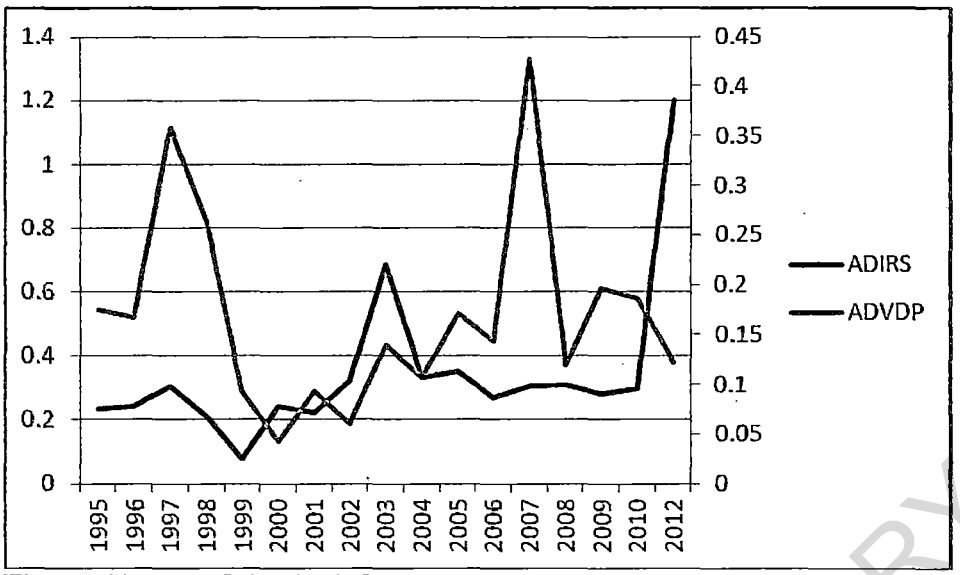


Figure 41: Trend Analysis between Directors' Shareholding and Dividend Payouts in Healthcare Subsector

Source: *Analysts' Data Services & Resources Limited*

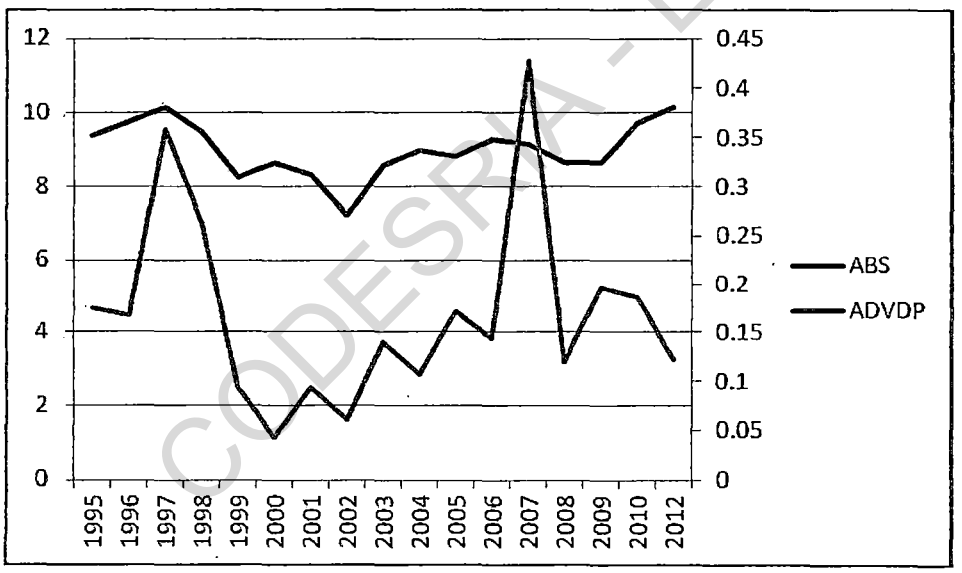


Figure 42: Trend Analysis between Board Size and Dividend Payouts in Healthcare Subsector

Source: *Analysts' Data Services & Resources Limited*

2.4.10: Relationship between governance indicators and dividend payouts in Industrial/domestic subsector

Table 17 presents a trend analysis that shows the relationship between governance indicators (board size, number of independent directors, institutional shareholding and directors' shareholding) and dividend payouts (average dividend per share) in the industrial/domestic sub-sector. The sub-sector comprised of ten listed firms (First Aluminums Nig. PLC, Aluminums Extrusion Industrial PLC, Aluminiums Manufacturing Company of Nig PLC, B.O.C Gases PLC, Nigeria Yeast & Alcohol Manufacturing PLC, Nigerian Enamelware PLC, Oluwa Glass Company PLC, Vitafoam Nig. PLC, Vono Products PLC and Multiverse Resources PLC) within the period of analysis. The table shows that dividends per share on the average fell from 0.16 kobo in 1995 to 0.15 kobo in 1998, while it decreased to 0.08 kobo in 2000. Dividend paid, however, rose between 2001 and 2007 but fell significantly from 0.15 kobo in 2007 to 0.09 kobo in 2010 but no dividends was paid in 2012. Average institutional shareholding fluctuated around 54.6% and 29.6% between 1995 and 2012. Specifically, institutional shareholding in this sub-sector rose from 54.6% in 1995 to 60.6% in 1999. In 2000, the value fell to 49.2% but, marginally increased to 50% in 2004. The value stood at 44.5% in 2005, while in 2009 it fell to 43.4%. A significant decline in institutional shareholding is seen from 2010 to 2012.

In addition, the proportion of independent directors rose from about 0.01% in 1995 to 1.8% in 2000. The proportion of independent directors in the sub-sector accounted for 5.6% in 2002 but fell to 5.5% in 2005. The value fluctuated around 4% and 7% between 2006 and 2012. Average board size in the periods under review ranged between 7 and 9.

Table 17: Relationship between governance indicators and dividend payouts in Industrial/domestic subsector

YEAR	AVERAGE DIVIDEND PAID (Kobo)	AVERAGE INSTITUTIONAL SHAREHOLDING (%)	AVERAGE NO OF INDEPENDENT DIRECTORS (%)	AVERAGE DIRECTORS SHAREHOLDING (%)	AVERAGE BOARD SIZE
1995	0.16	54.5	0.44	0.01	9
1996	0.19	56.7	0.39	1.86	8
1997	0.24	52.7	0.41	2.0	8
1998	0.14	55.0	0.39	2.10	8
1999	0.15	60.6	0.38	4.02	8
2000	0.08	49.2	0.42	1.77	8
2001	0.12	54.5	0.38	0.01	8
2002	0.15	54.5	0.35	0.06	7
2003	0.17	50.5	0.47	0.01	8
2004	0.15	49.9	0.46	0.07	9
2005	0.14	44.5	0.37	0.06	7
2006	0.11	53.6	0.45	0.04	7
2007	0.15	47.6	0.45	0.04	7
2008	0.07	44.7	0.57	0.07	8
2009	0.07	43.4	0.46	0.03	8
2010	0.09	46.9	0.58	0.07	8
2011	0.15	46.9	0.44	0.07	7
2012	0	29.6	0.43	0.07	8

***Source:** Analysts' Data Services & Resources Limited*

Graphically, the trend analysis in the table above is depicted in figures 43-46

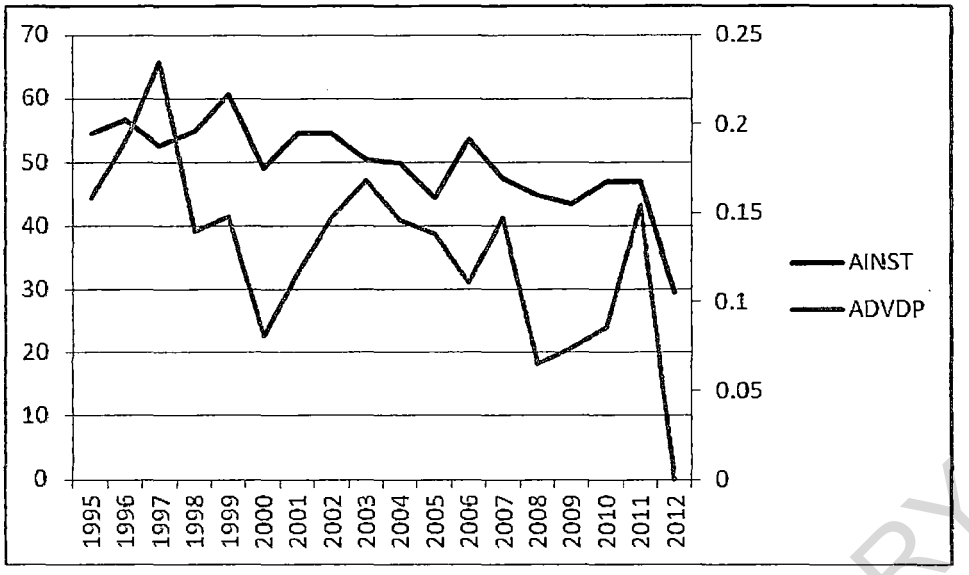


Figure 43: Trend Analysis between Institutional Shareholding and Dividend Payouts in Industrial/Domestic Subsector

Source: *Analysts' Data Services & Resources Limited*

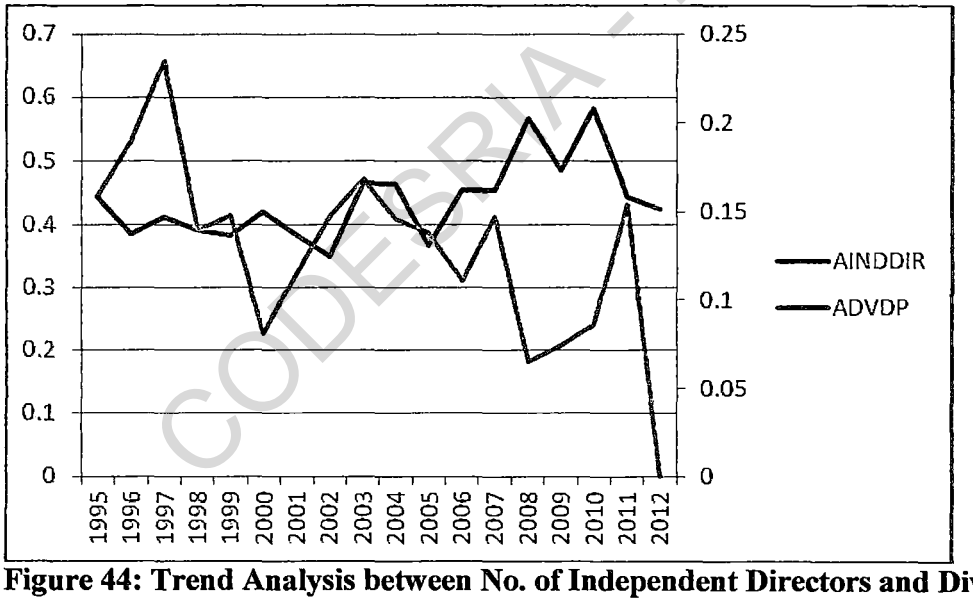


Figure 44: Trend Analysis between No. of Independent Directors and Dividend Payouts in Industrial/Domestic Subsector

Source: *Analysts' Data Services & Resources Limited*

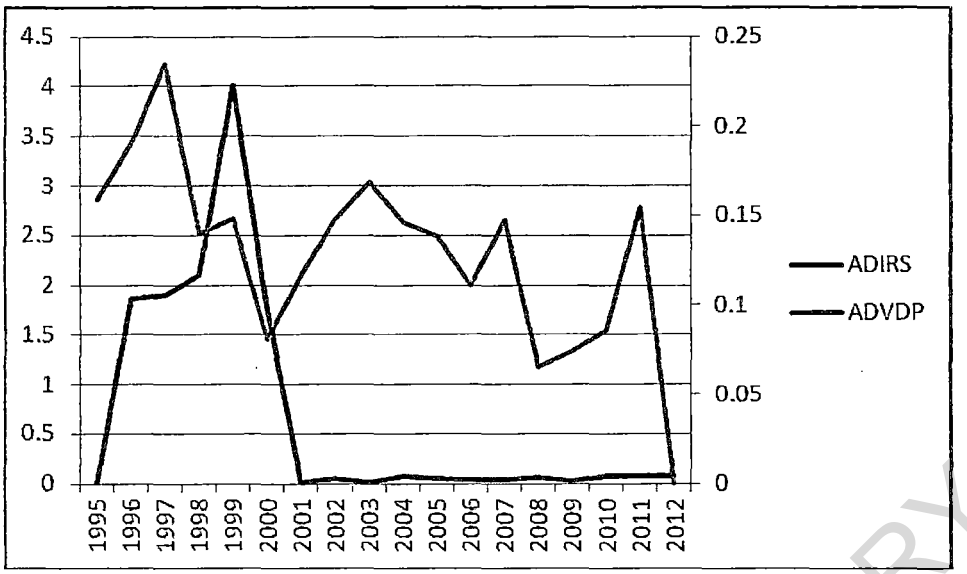


Figure 45: Trend Analysis between Directors' Shareholding and Dividend Payouts in Industrial/Domestic Subsector

Source: *Analysts' Data Services & Resources Limited*

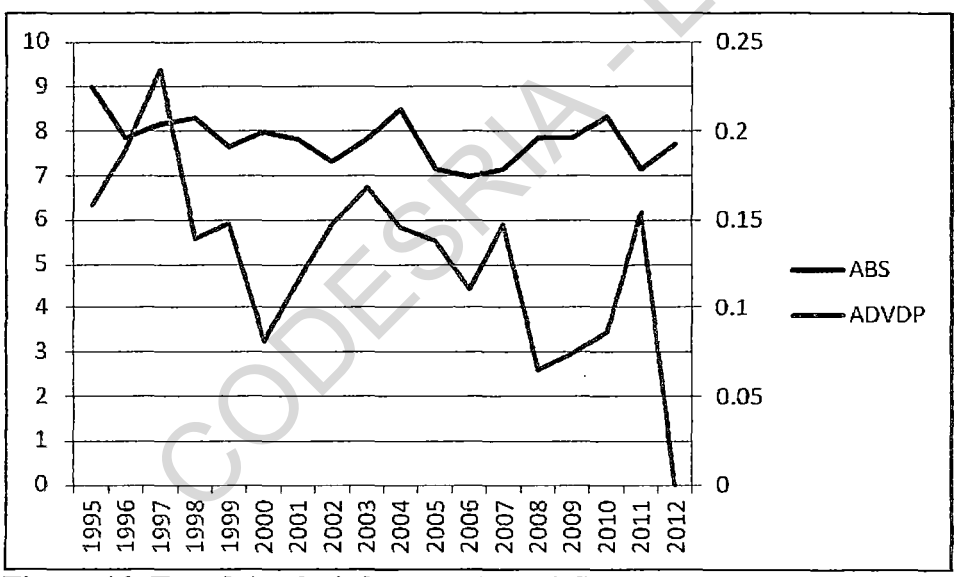


Figure 46: Trend Analysis between Board Size and Dividend Payouts in Industrial/Domestic Subsector

Source: *Analysts' Data Services & Resources Limited*

2.4.11: Relationship between governance indicators and dividend payouts in Petroleum subsector

Table 18 presents a trend analysis that shows the relationship between governance indicators (board size, number of independent directors, institutional shareholding and directors' shareholding) and dividend payouts (average dividend per share) in the petroleum sub-sector. The sub-sector comprised of nine listed firms (Eternal Oil & Gas Company PLC, Mobil Oil Nig. PLC, Agip Nig. PLC, Conioil (National Oil) PLC, Total Nig. PLC, Forte Oil PLC, MRS Oil Nig. PLC, Oando PLC and Beco Petroleum Products PLC) within the period of analysis. From the table, dividends per share on the average declined from 4.26 kobo in 1995 to 0.6 kobo in 1997; while it rose to 1.66 kobo in 1999. In 2000, 1.97 kobo average dividend was paid; however, dividends per share peaked at 1.9 kobo in 2003, while it fell to 1.52 kobo in 2004. The value increased from 2.12 kobo in 2005 but deepened to 2.10 kobo in 2008 while 1.78 kobo was paid in 2012. On the other hand, average institutional shareholding fluctuated around 65% and 10.3% between 1995 and 2012. Specifically, institutional shareholding in the sub-sector fell from 65% in 1995 to 47.6% in 1999. In 2000, the value stood at 52% and fell to 50.4% in 2004. Institutional investors in the agricultural sub-sector on the average accounted for 46.2% in 2005, while in 2009 the value fell to 42.05%. A steady decline in institutional shareholding is seen from 49.4% in 2010 to 10.3% in 2012.

On the other hand, the proportion of independent directors fell from about 54.7% in 1995 to 51.4% in 1998, while in 1999 the value stood at 42%. The proportion of independent directors in the sub-sector accounted for 63% in 2001 but fell slightly to 62.9% in 2003 while it fell to 52.6% in 2004. The value fluctuated around 57.7% and 56.1% between 2005 and 2012. Directors' shareholding (proportion of directors' total shares in the paid up share) rose from 0.01% in 1995 to 0.06% in 1999. In 2000, the value stood at 0.05%

but fell to 0.01% in 2004. It fluctuated around 0.01% and 25.5% between 2005 and 2009, while it peaked at 26.7% in 2012. Average board size in the periods under review ranged between 10 and 13.

Table 18: Relationship between governance indicators and dividend payouts in Petroleum subsector

YEAR	AVERAGE DIVIDEND PAID (Kobo)	AVERAGE INSTITUTIONAL SHAREHOLDING (%)	AVERAGE NO. OF INDEPENDENT DIRECTORS (%)	AVERAGE DIRECTORS SHAREHOLDING (%)	AVERAGE BOARD SIZE
1995	4.26	65.0	0.55	0.01	13
1996	1.33	60.0	0.59	0.01	13
1997	0.63	45.0	0.62	0.08	11
1998	1.07	59.0	0.51	0.05	11
1999	1.66	47.6	0.42	0.06	11
2000	1.97	52.0	0.46	0.050	12
2001	2.35	53.1	0.63	0.043	11
2002	0.59	51.0	0.61	0.01	11
2003	1.85	53.9	0.63	0.01	11
2004	1.52	46.2	0.52	0.01	10
2005	2.12	48.8	0.58	0.01	11
2006	2.37	49.1	0.54	0.01	10
2007	2.33	57.1	0.58	0.05	10
2008	2.10	47.3	0.57	0.09	10
2009	1.44	42.1	0.46	0.26	11
2010	1.99	49.4	0.55	0.18	11
2011	2.97	36.6	0.65	0.18	10
2012	1.78	10.3	0.56	0.27	10

***Source:** Analysts' Data Services & Resources Limited*

Graphically, the trend analysis in the table above is depicted in figures 47-50

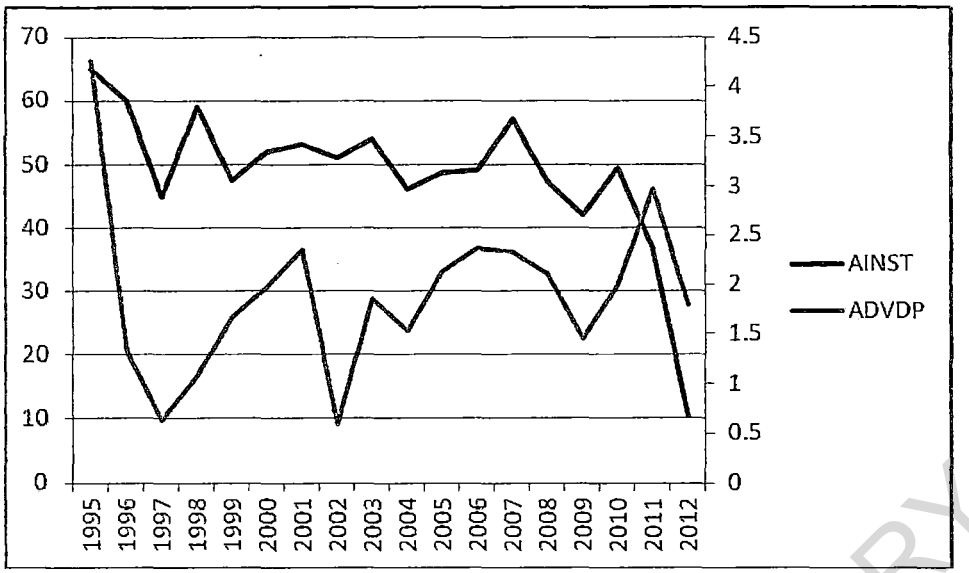


Figure 47: Trend Analysis between Institutional Shareholding and Dividend Payouts in Petroleum Subsector

Source: *Analysts' Data Services & Resources Limited*

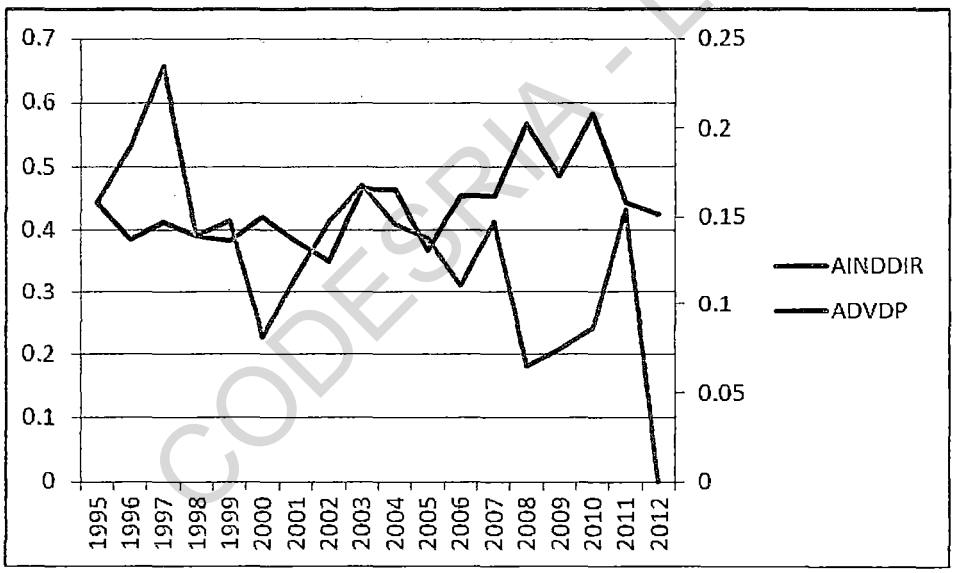


Figure 48: Trend Analysis between No. of Independent Directors and Dividend Payouts in Petroleum Subsector

Source: *Analysts' Data Services & Resources Limited*

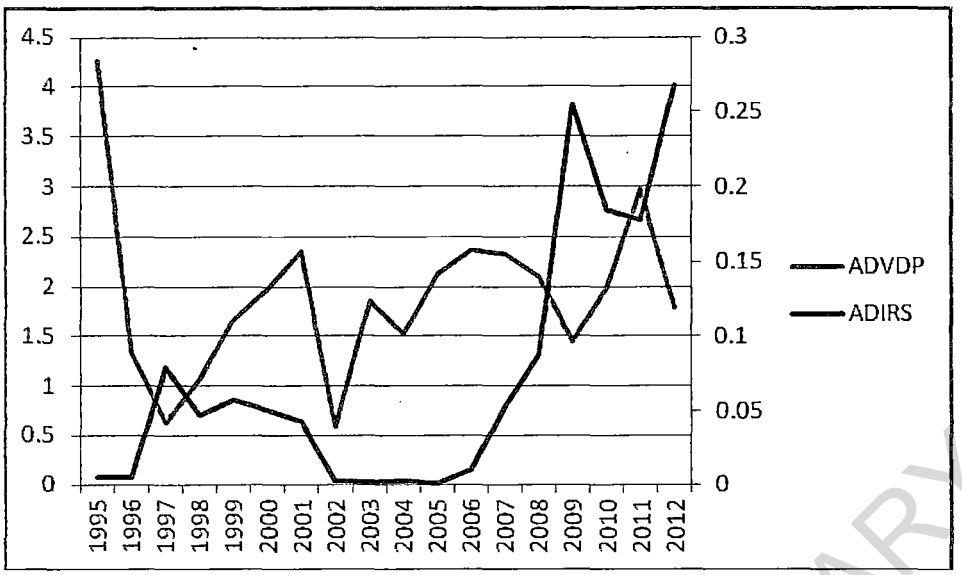


Figure 49: Trend Analysis between Directors' Shareholding and Dividend Payouts in Petroleum Subsector

Source: *Analysts' Data Services & Resources Limited*

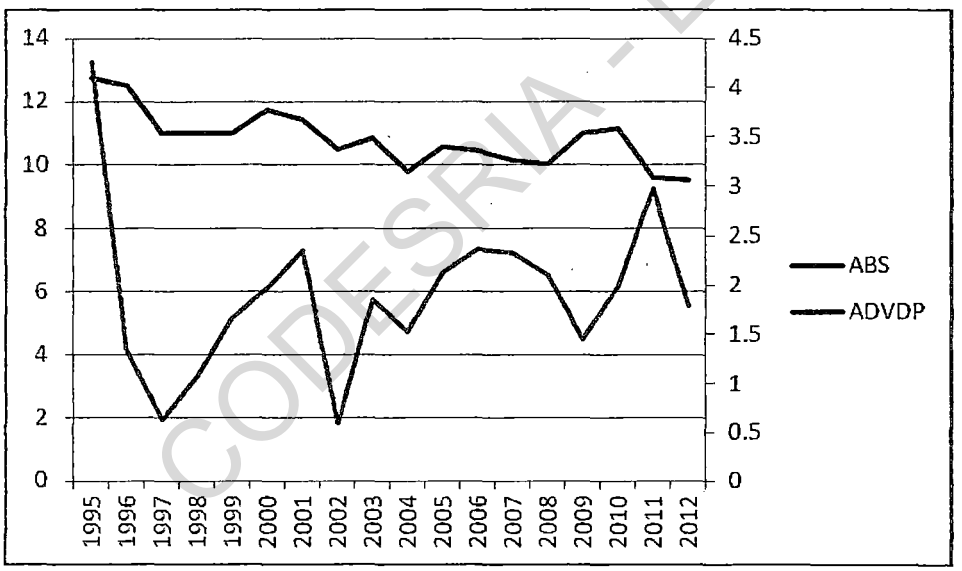


Figure 50: Trend Analysis between Board Size and Dividend Payouts in Petroleum Subsector

Source: *Analysts' Data Services & Resources Limited*

2.4.12: Relationship between governance indicators and dividend payouts in Printing/publishing subsector

Trend analysis that shows the relationship between governance indicators (board size, number of independent directors, institutional shareholding and directors' shareholding) and dividend payouts (average dividend per share) in the printing/publishing sub-sector is represented in Table 19. Four quoted firms were selected from the sub-sector (Academy Press PLC, Learn Africa PLC, Daily Times PLC and University Press PLC) within the period of analysis. The table depicts that, dividends per share on the average significantly declined from 0.28 kobo in 1995 to 0.03 kobo in 2012. In 2000, 0.16 kobo dividend was paid; however, dividends per share peaked at 0.15 kobo in 2005, while it fell to 0.24 kobo in 2010. It fell 0.03 kobo in 2012. In addition, average institutional shareholding in the printing/publishing sub-sector fell from 31.2% in 1995 to 17.5% in 1999. It rose significantly in 2000 to 32% but deepened to 24.7% in 2005. The value stood at 22% in 2006 but increased to 30.3% 2010 but slightly fell to 19.4% in 2012.

The proportion of independent directors fell from 29% in 1995 to 0.1% in 1999 but stood at 31.2% 2000. It deepened to 28.1% in 2004 the downward trend continued till 2009 as it stood at 29.3%. The value fluctuated around 32.7% and 21% between 2010 and 2012. Directors' shareholding (proportion of directors' total shares in the paid up share) decreased from 20.1% in 1995 to 15.2% in 2000. In 2001, the value stood at 15.3%, but rose to 21.2% in 2005. It deepened to 21% in 2006 as the decline continued and peaked at 9.7% in 2012. Average board size in the periods under review ranged between 8 and 11.

Table 19: Relationship between governance indicators and dividend payouts in Printing/publishing subsector

YEAR	AVERAGE DIVIDEND PAID (Kobo)	AVERAGE INSTITUTIONAL SHAREHOLDING (%)	AVERAGE NO. OF INDEPENDENT DIRECTORS (%)	AVERAGE DIRECTORS SHAREHOLDING (%)	AVERAGE BOARD SIZE
1995	0.28	31.2	0.29	0.20	9
1996	0.27	30.5	0.27	0.20	9
1997	0.10	20.5	0.17	0.20	10
1998	0.10	17.5	0.07	0.20	8
1999	0.15	17.5	0.10	0.20	8
2000	0.16	32.0	0.31	0.15	8
2001	0.14	30.5	0.27	0.15	8
2002	0.14	30.5	0.27	0.22	10
2003	0.10	21.6	0.15	0.27	9
2004	0.17	21.8	0.28	0.26	9
2005	0.15	24.7	0.26	0.21	9
2006	0.24	22.0	0.20	0.21	10
2007	0.44	18.4	0.25	0.18	10
2008	0.29	28.7	0.27	0.16	10
2009	0.30	28.7	0.29	0.16	9
2010	0.24	30.3	0.33	0.16	11
2011	0.23	27.5	0.16	0.09	10
2012	0.03	19.4	0.21	0.10	10

Source: *Analysts' Data Services & Resources Limited*

Graphically, the trend analysis in the table above is depicted in figures 51-54

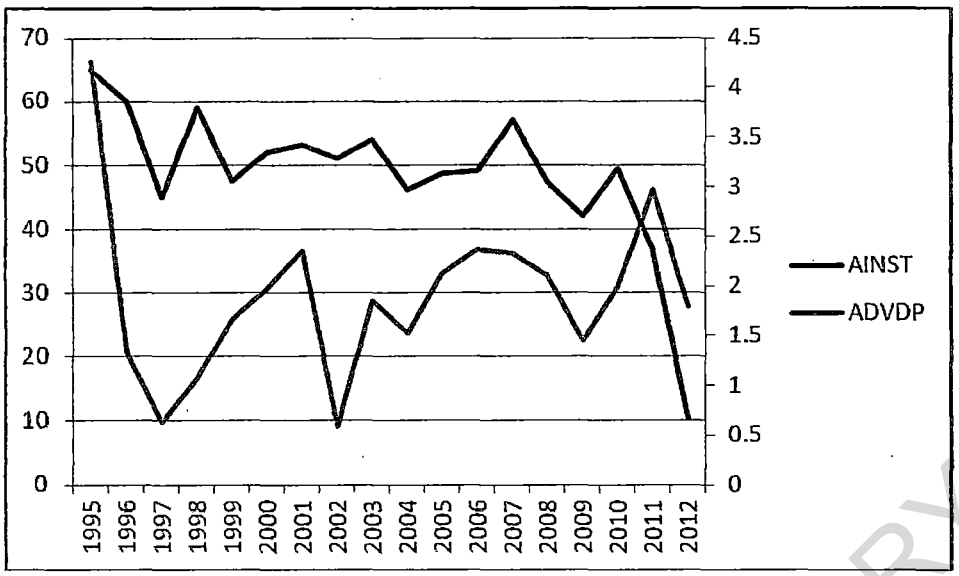


Figure 51: Trend Analysis between Institutional Shareholding and Dividend Payouts in Printing/Publishing Subsector

Source: *Analysts' Data Services & Resources Limited*

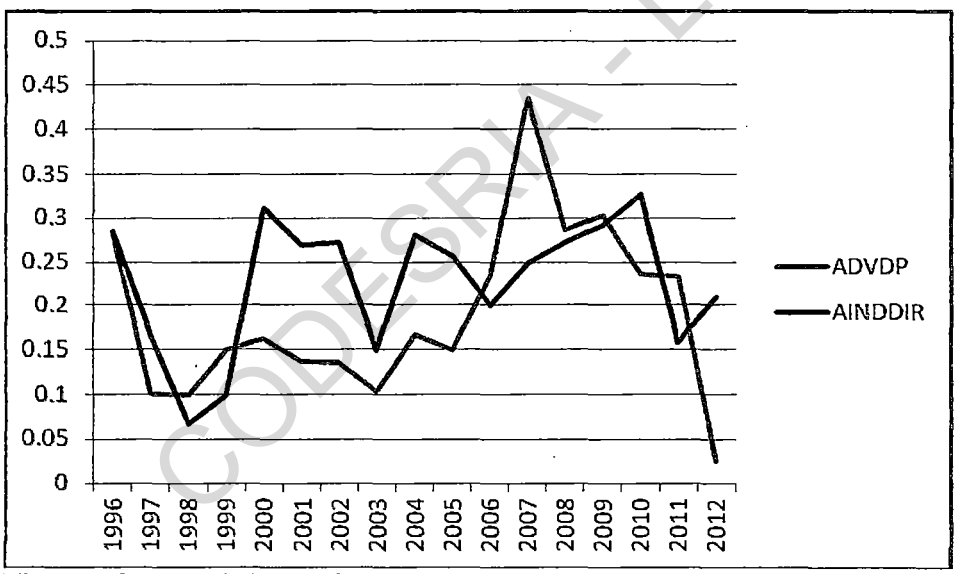


Figure 52: Trend Analysis between No. of Independent Directors and Dividend Payouts in Printing/Publishing Subsector

Source: *Analysts' Data Services & Resources Limited*

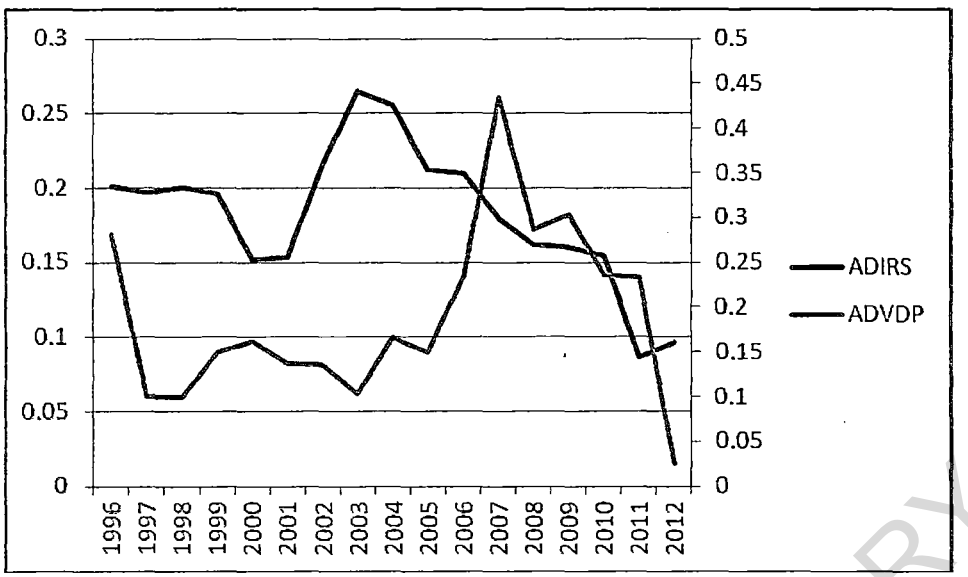


Figure 53: Trend Analysis between Directors' Shareholding and Dividend Payouts in Printing/Publishing Subsector

Source: *Analysts' Data Services & Resources Limited*

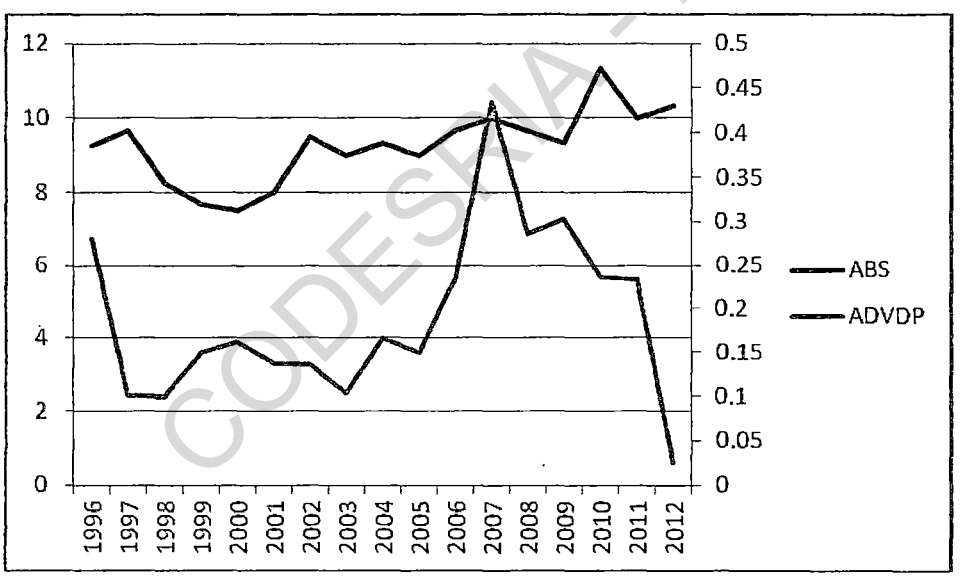


Figure 54: Trend Analysis between Board Size and Dividend Payouts in Printing/Publishing Subsector

Source: *Analysts' Data Services & Resources Limited*

2.4.13: Relationship between governance indicators and dividend payouts in the Nigerian corporate sector

Overall, the total trend analysis that shows the relationship between governance indicators (board size, number of independent directors, institutional shareholding and directors' shareholding) and dividend payouts (average dividend per share) in the corporate sector (12 sectors) is depicted in Table 20. 101 non-financial firms in 12 sub-sectors listed on the Nigerian Stock Exchange were used for the analysis which covered 1995 and 2012. The 12 sub-sectors of the corporate firms covered in the study were: agriculture, (6); automobile and tyres, (6); building materials, (8); brewery, (6); chemical and paints, (9); conglomerates, (9); construction, (6); food and beverages, (17); healthcare, (11); industrial and domestic products, (10); petroleum and marketing, (9) and printing and publishing, (4) respectively.

The table depicts that, dividends per share in the corporate sector on the average significantly increased from 0.57 kobo in 1995 to 0.81 kobo in 2012. In 1999, 0.28 kobo on average was paid as dividend; however, dividends per share rose to 0.63 kobo in 2003, while it fell to 0.24 kobo in 2010. It fell 0.58 kobo in 2009. The upward trend continued and peaked 012 when the corporate sector on average paid 0.81 kobo. In addition, average institutional shareholding in the sector fell from 45.9% in 1995 to 44% in 1999. It rose significantly in 2000 to 49%, but deepened to 49.3% in 2005. The value stood at 48.9% in 2006 but fell to 34.7% in 2012.

The proportion of independent directors in the entire sector was 44% in 1995 but, continuously deepened to 37% in 2000. It rose to 45% in 2004, however, peaked in 2006 at 52%. The downward trend continued till 2012 as stood at 44%. Directors' shareholding (proportion of directors' total shares in the paid up share) increased from 0.08% in 1995

to 32% in 2000. In 2001, the value stood at 91%, but fell to 19% in 2005. It increased to 89% in 2010,it however, fell to 41% in 2012. Average board size in the periods under review ranged between 7 and 10.

Table 20: Relationship between governance indicators and dividend payouts in the Nigerian corporate sector

YEAR	AVERAGE DIVIDEND PAID (Kobo)	AVERAGE INSTITUTIONAL SHAREHOLDING (%)	AVERAGE NO OF INDEPENDENT DIRECTORS (%)	AVERAGE DIRECTORS SHAREHOLDIG (%)	AVERAGE BOARD SIZE
1995	0.57	45.58	0.44	0.08	10
1996	0.41	43.7	0.41	0.53	10
1997	0.26	40.9	0.39	0.60	10
1998	0.24	44.2	0.40	0.35	9
1999	0.28	44.0	0.41	0.47	9
2000	0.33	49.8	0.37	0.32	7
2001	0.43	47.2	0.43	0.91	9
2002	0.34	46.0	0.40	0.73	19
2003	0.63	48.8	0.39	0.76	9
2004	0.53	49.0	0.45	0.17	9
2005	0.49	49.3	0.40	0.19	9
2006	0.45	48.9	0.52	0.23	9
2007	0.61	47.1	0.44	0.21	9
2008	0.62	48.1	0.44	0.21	9
2009	0.58	46.8	0.42	0.39	9
2010	0.68	45.5	0.44	0.89	9
2011	0.75	45.8	0.44	0.16	9
2012	0.81	34.8	0.44	0.41	9

Source: *Analysts' Data Services & Resources Limited*

Graphically, the overall trend analysis of the Nigerian corporate sector in the table above is depicted in figures 55-58

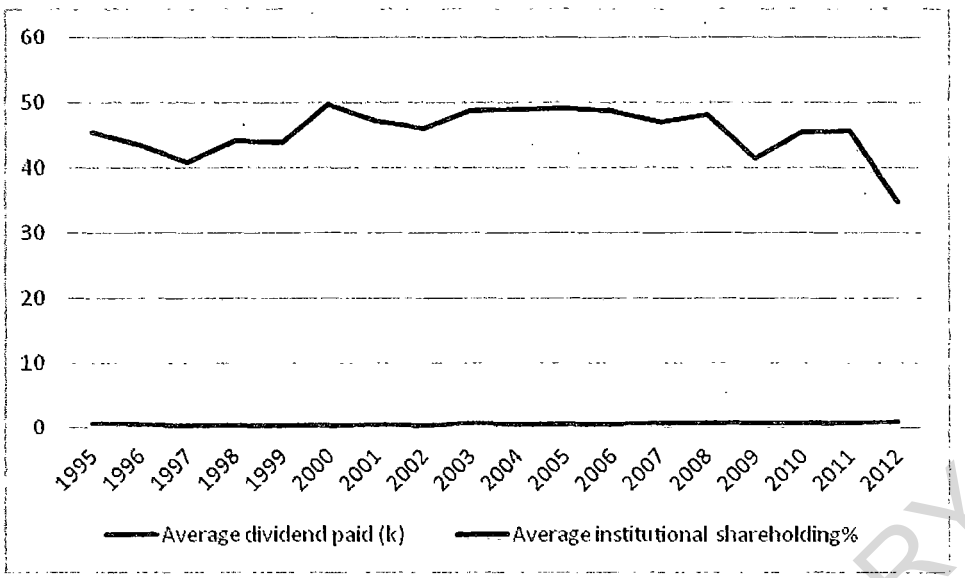


Figure 55: Trend Analysis between Board Size and Dividend Payouts in the Nigerian Corporate sector

Source: *Analysts' Data Services & Resources Limited*

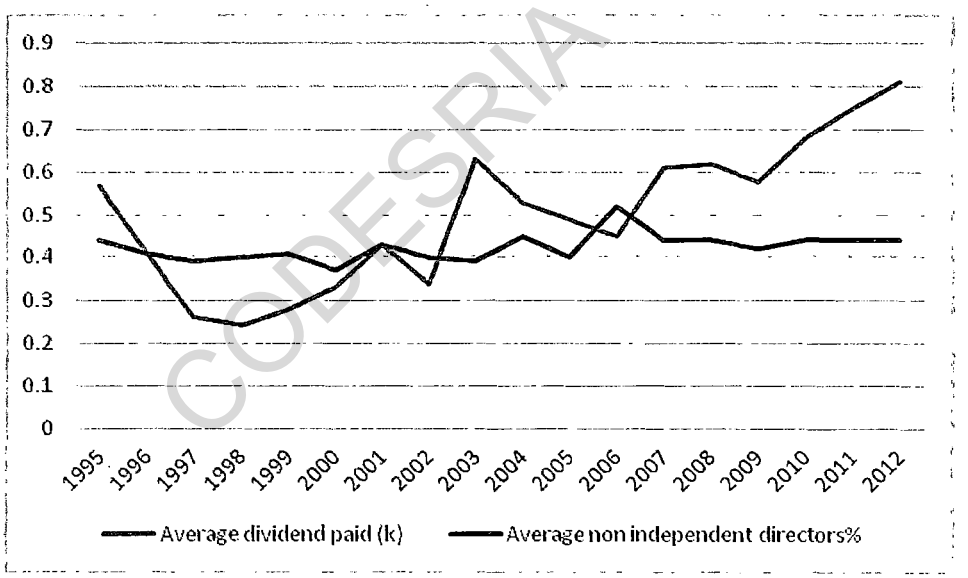


Figure 56: Trend Analysis between Board Size and Dividend Payouts in the Nigerian Corporate Sector

Source: *Analysts' Data Services & Resources Limited*

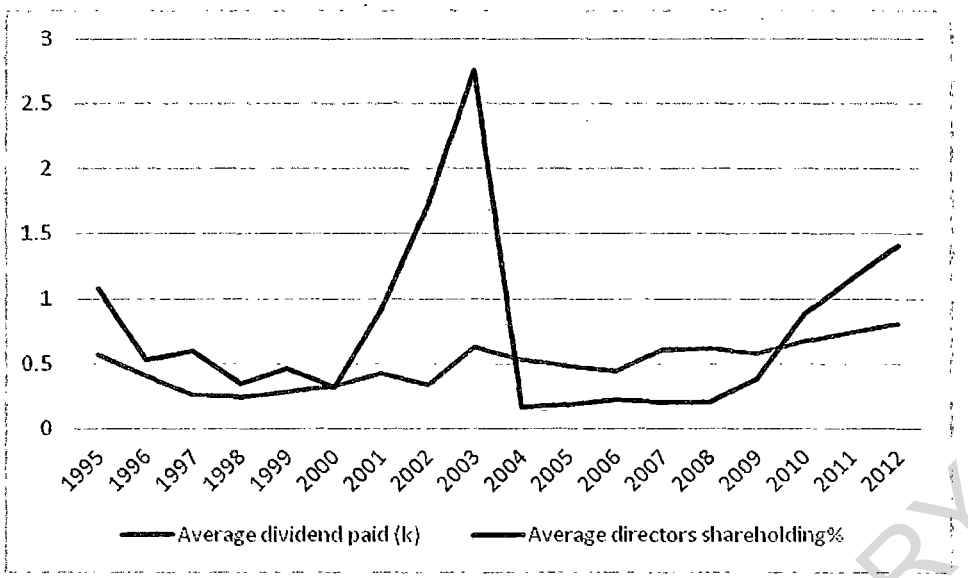


Figure 57: Trend Analysis between Board Size and Dividend Payouts in the Nigerian Corporate Sector

Source: *Analysts' Data Services & Resources Limited*

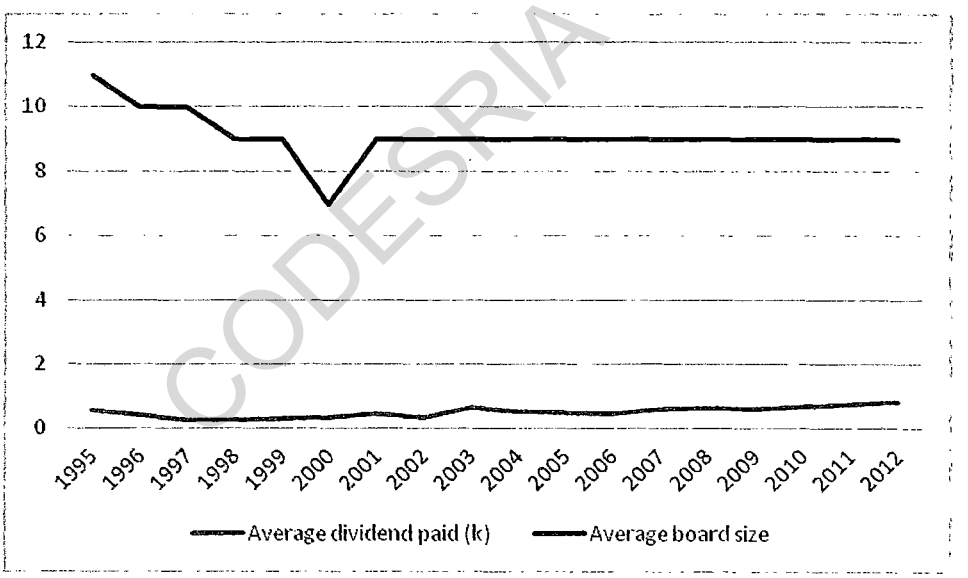


Figure 58: Trend Analysis between Board Size and Dividend Payouts in the Nigerian Corporate Sector

Source: *Analysts' Data Services & Resources Limited*

2.5: Evolutions in Institutional Developments

2.5.1: Legal Framework

Company legislation in Nigeria dates back to colonial rule, when British Company Legislation was introduced into the country. During the colonial period, British legal system was introduced into the country and Nigeria's legal system and corporate governance practices were patterned after the United Kingdom (UK). At independence, the company legislation was reviewed; consequently, the Companies Ordinance of 1922 was repealed and replaced by the Companies Act, 1968. The first local company legislation was promulgated in 1912. It was based on the UK Companies Act of 1908 and her companies' statutes. The 1912 Ordinance applied only to the Colony of Lagos, and in 1917, it was amended and extended to apply to the whole country. In 1922, it became chapter 37 of the laws of Nigeria; the Ordinance was subsequently amended in 1929, 1941 and 1954 respectively. In 1968, the Companies Acts chapter 37 of the 1958 law was repealed and replaced by the Companies Acts 1968 (Okike, 2007).

The Companies Act of 1968 was a replica of the United Kingdom (UK) Companies Act of 1948 to a large extent. The exceptions were the exclusion of the "exempt private company" from the Nigerian Companies Act, and the inclusion of part X, which required foreign companies which intended to transact business in Nigeria to be incorporated locally. The reason for the exclusion and inclusion was that before the indigenisation policy of 1972, foreigners mostly Britons controlled business enterprises. It was observed that the then company legislation did not reflect Nigeria's socio-cultural and political environment. Also, it did not address the rapid economic and commercial developments of the country (Ibid).

Presently, the general company law in Nigeria is the Companies and Allied Matters Act (CAMA) of 1990. It provides that the directors of every company shall prepare financial statements reflecting a true and fair view of the operations of the company during the financial year. It also provides for the annual preparation of the Directors' Report as well as information about emoluments of directors. The financial statements must include, among others, the balance sheet and profit and loss accounts; the sources and application of funds, giving information about the generation and utilisation of fund; the value added statement reporting the wealth created by the company during the year and the five year summary which provides comparative inter-temporal performance information. The financial statement must be laid before the shareholders at the annual general meeting (AGM). These statements must reach the shareholders, who must decide whether to approve or reject the financial statements, at least 21 days before the AGM.

CAMA requires that the financial statement prepared by each company conform to the accounting standards laid down by the Statements of Accounting Standards issued from time to time by the Nigerian Accounting Standards Board, provided such accounting standards do not conflict with the provisions of the decree. Where information provided in the balance sheet or the profit and loss account in the specified format would not provide sufficient information to give a true and fair view of the operations of the company, the law requires that necessary additional information be provided in the balance sheet or profit and loss account or a note to the accounts.

In addition, it also specifies specific standards for reporting consolidated accounts dealing with all or any of the subsidiaries of the company. Only persons who belong to a body of accountants in Nigeria established by an Act of the National Assembly can be auditors.

However, the law also specifies that the members of the audit committee be not entitled to any remuneration and are subject to annual re-election. The CAMA provides for the annual preparation of the Directors' Report, which should give shareholders a fair view of the developments of the business of the company, its principal activities during the year and any significant change in those activities. The Directors' Report must also contain information about the amount, if any, recommended as dividend and the amount, if any, recommended as reserves. It provides that directors give information about their emoluments, including emoluments waived, pensions and compensation for loss of office to directors and past directors. Information must also be supplied about employees remunerated at higher rates. Also to be provided are disclosures of transactions and agreements on loans, quasi loans and other dealings in favour of directors and "connected persons". CAMA specifies additional disclosures required in notes to financial statements. Such information includes disclosure of particulars of the subsidiaries of the company and its shareholders; disclosure of financial information relating to its subsidiaries; arrangements and agreements made by the company or a subsidiary of it during the year with officers of the company.

Among the functions of the audit committee are to: ascertain whether the accounting and reporting policies of the company are in accordance with legal requirements and agreed ethical practices; review the scope and planning requirements; review the findings on management matters in conjunction with the external auditor and departmental responses thereto; keep under review the effectiveness of the company's system of accounting and internal control; make recommendations to the board with regard to the appointment, removal and remuneration of the external auditor; and authorise the internal auditor to carry out investigations which may be of interest or concern to the committee.

The law requires that each company must keep a register of members/shareholders where the shares held by each holder is recorded as well as the amount paid or agreed to be paid. Whenever shares are sold they must also be recorded in the register. For a Public Limited Company (PLC), in addition to the register, the law also requires that unless the register is in such a form that it constitutes in itself an index, the company shall keep an index of the names of the members of the company. In the case where any alteration is made in the register of members, the company must within 14 days make any necessary alteration in the index. The index is expected to have sufficient information to enable the account of any member to be easily located. The register or index should be opened for inspection during office hours except when the register of members is closed.

2.5.2: Evolution of Dividend Policy in Nigeria

Dividend policy evolved with the prescribed legal framework within an enrollment. In Nigeria, the Companies and Allied Matters Act (CAMA) or Act 1990 part xiii section 379-385 specify dividend policy. According to section 379 sub-section (1) of CAMA, a company may in the annual general meeting, declare dividend only on the recommendation of the Board of directors. The company may from time to time pay to the members such interim dividends as recommended by the Board of directors based on the profits of the company. In sub-section (3), the annual general meetings (AGM) shall have the power to decrease the amount of dividend recommended by the Board, but shall have no power to increase the amount recommended. While sub-section (5) states that, subject to the provisions of CAMA, the dividend shall be payable only out of the distributable profits of the company. Further, section 381 of CAMA states that a company shall not declare or pay dividends if there are reasonable grounds for believing the

company is or would be, after the payment, unable to meet up with or pay its liabilities as they become due.

The Act further analyses that profits of the previous year may be distributed as dividends from the reserve funds because they are still regarded as the company's profits unless they are ''capitalised'' while realised profits from the sale of fixed assets may be treated as profits available for distribution. The law also empowers that ''the directors may before recommending any dividend (set aside out of profits of the company) such as they think proper as reserves which shall at the discretion of the directors be applicable; for any purpose to which the profits of the company may be properly applied and pending such may at their discretion, either be employed in the business of the company or be invested in such investment (other than shares of the company as the directors may from time to time think fit)''. The Board of directors may also without placing the same to reserve carry forward any profits, which they may think prudent not to distribute.

2.5.3: National Investment Act 1995

This act repealed the Nigeria Enterprises Promotion Act of 1989 which replaced the 1977 Indigenisation Decree. Under the decree, enterprises were grouped into the followings:

i. Category A: Enterprises under this head was reserved exclusively for Nigerians.

ii. Category B: Enterprises falling under this head were divided in the ratio of 60% for Nigerians and 40% for foreigners.

iii. Category C: Under this, enterprises were shared out in the ratio 60% for foreigners and 40% for Nigerians.

The 1989 Act was promulgated to remove the restrictions placed on foreigners by the Indigenisation Decree, 1977 thus making it possible for aliens to invest in any enterprises where the paid up/share capital is not less than #20 million. However, the 1995 Investment and Promotion Act has removed the requirement of #20 million and there is no restriction any more except enterprises listed on the negative list such as production of military uniforms, narcotics and drugs, arms, ammunitions as well as petroleum enterprises. The Act established a commission known as National Investment Promotion Commission that stipulates that all foreign enterprises or investments must register with the Commission and the Commission is expected to keep such a register. The registration enables such foreign investors to freely transfer funds in respect of any transaction abroad through an authorised dealer bank in free convertible currencies. Section 25 of the Act provides to the effect that no such enterprise shall be nationalised or expropriated.

2.5.4: Code of Corporate Governance in Nigeria (2003)

Corporate governance is the key to ensuring transparency and accountability in the corporate world. This is basically intended to ensure that the Board acts always in the best interests of the stakeholders. Seeing the need to align with the International Best Practices, the Securities and Exchange Commission (SEC) in collaboration with Corporate Affairs Commission (CAC) inaugurated a 17 member committee in June 15, 2000 and launched a Code of Corporate Governance for Nigerian public companies. The committee headed by Atedo Peterside (OON) was mandated to identify weaknesses in the corporate governance practice in Nigeria and fashion out necessary changes that could improve the country's corporate governance practices (SEC–CAC, 2003). The Commission introduced various measures to ensure best investment practices. This was addressed from two angles: the operators' point of view and the Commission. The

Commission put in place a Code of Conduct for market operators basically to prevent conflict of interests in their operations. It also encouraged the formation of trade groups such as Capital Market Solicitors Association and Association of Issuing Houses of Nigeria to check the activities of their members. On its part, the Commission is a key member of the International Organisation of Securities Commission (IOSCO) of which it is a signatory. The membership of the Organisation encourages the adoption of international best practices in the issuance and trading of securities.

The SEC–CAC code recognises the Board of directors as responsible for the affairs of the company in a lawful and efficient manner in such a way as to ensure that the company is constantly improving its value creation as much as possible. It therefore requires that the board comprises a mix of executive and non-executive directors headed by a chairman of the board; however membership ranges between 5 and 15. Also, the position of the chairman and chief executive officer should be separated and held by different persons. For effective control and monitoring, the code highlights the importance of frequent board meetings, not less than once in a quarter with sufficient notices, while shareholders should also be given enough time to contribute meaningfully in AGMs. The non-executive directors are to be independent and not be involved in business relationships with the company that could disrupt their independent judgments. It was recommended that there be full and clear disclosure of directors' total emoluments; chairman highest paid directors, including pension contributions and stock options where the earnings are in excess of #500, 000.The remuneration committee, should wholly or mainly compose of non executive/ independent directors and chaired by a non-executive director, who is to recommend the remuneration of executive directors.

Equal treatment of shareholders is deemed ideal while shareholders whose holding is more than 20% of the total issued capital of a company are to have a representative on the board. Minority shareholders should have at least one director on the board. Moreover, shareholders with large holdings are encouraged to act and influence the standard of corporate governance positively and thereby optimise stakeholders' value. In promoting transparency in financial and non-financial reporting, external auditors are not to be involved in business with the company while an audit committee of at least three (3) non-executive directors should be established. Several provisions are made in the SEC–CAC code protecting shareholders' rights. Notable among them are the conditions that the venue of general meeting be carefully chosen in such a way as to make it possible and affordable for majority of shareholders to attend and vote while notices of meeting be sent at least 21 working days before the meeting.

2.5.5: Code of Corporate Governance in Nigeria (2011)

Recent financial scams in Nigerian corporate sector implied that corporate governance was weak. In order to improve corporate governance, the Securities and Exchange Commission (SEC), in September 2008, inaugurated a National Committee chaired by Mr. M. B. Mahmoud for the Review of the 2003 Code of Corporate Governance for Public Companies in Nigeria; to address its weaknesses and to improve the mechanism for its enforceability. In April 2011, the new code of corporate governance in Nigeria (2011) came into existence and its enforcement followed suit. The broad changes are highlighted as follows:

The Code is not intended as a rigid set of rules.

a) It is expected to be viewed and understood as a guide to facilitate sound corporate practices and behaviour. The code should be seen as a dynamic document defining

minimum standards of corporate governance expected, particularly of public companies with listed securities.

b) The responsibility for ensuring compliance with or observance of the principles and provisions of this Code is primarily with the Board of directors. However, shareholders, especially institutional shareholders, are expected to familiarise themselves with the letter and spirit of the Code and encourage or whenever necessary, demand compliance by their companies.

c) The question whether a company or entity required to comply with or to observe the principles or the provisions of this code, has complied with or has so observed the provisions of the code shall, in the first instance, be determined by the Board and its shareholders and thereafter by the Securities and Exchange Commission (SEC).

d) Whenever the SEC determines that a company or entity required to comply with or observe the principles or provisions of this code is in breach, the SEC shall notify the company or entity concerned specifying the areas of non-compliance or non-observance and the specific action or actions needed to remedy the non-compliance or non-observance.

e) The SEC shall from time to time issue guidelines or circulars to facilitate compliance with or observance of the principles and provisions of this code.

f) In their annual reports to the SEC, public companies shall indicate their level of compliance with the code.

g) Where there is a conflict between this code and the provisions of any other code in relation to a company covered by the two codes, the code that makes a stricter provision shall apply.

2.5.5.1: Responsibilities of the Board

It specifies the roles of the Board as:

a) The Board is accountable and responsible for the performance and affairs of the company. It should define the company's strategic goals and ensure that its human and financial resources are effectively deployed towards attaining those goals.

b) The principal objective of the Board is to ensure that the company is properly managed. It is the responsibility of the Board to oversee the effective performance of the management in order to protect and enhance shareholders' value and to meet the company's obligations to its employees and other stakeholders.

c) The primary responsibility for ensuring good corporate governance in the company lies with the Board. Accordingly, the Board should ensure that the company carries on its business in accordance with its Articles and Memorandum of Association and in conformity with the laws of the country, observing the highest ethical standards and on an environmentally sustainable basis.

d) The Board is to define a framework for the delegation of its authority or duties to management specifying matters that may be delegated and those reserved for the Board. The delegation of any duty or authority to the management does not in any way diminish the overall responsibility of the Board and its directors as being accountable and responsible for the affairs and performance of the company.

2.5.5.2: Composition and Structure of the Board

a) The Board should be of a sufficient size relative to the scale and complexity of the company's operations and be composed in such a way as to ensure diversity of experience without compromising independence, compatibility, integrity and availability of members to attend meetings.

b) Membership of the Board should not be less than five (5).

c) The Board should comprise a mix of executive and non-executive directors, headed by a chairman. Majority of Board members should be non-executive directors, at least one of whom should be an independent director.

d) The members of the Board should be individuals with upright personal characteristics, relevant core competences and entrepreneurial spirit. They are to have record of tangible achievement and should be knowledgeable in Board matters.

e) Members should posses a sense of accountability and integrity and be committed to the task of good corporate governance.

f) The Board should be independent of management to enable it carry out its oversight function in an objective and effective manner.

2.5.5.3: The Chairman

The Chairman's primary responsibility is to ensure effective operations of the Board such that it works towards achieving the company's strategic objectives. He should not be involved in the day-to-day operations of the company. This should be the primary responsibility of the chief executive officer and the management team. For all public companies with listed securities, the positions of the chairman of the Board and chief executive officer shall be separated and held by different individuals. This is to avoid over-concentration of powers in one individual which may rob the Board of the required checks and balances in the discharge of its duties. The chairman of the Board is a non-executive director. The chairman's functions include the following:

i. Providing overall leadership and direction for the Board and the company;

ii. Setting the annual Board plan;

iii. Setting the agenda for Board meetings in conjunction with the CEO and the company secretary;

iv. Playing a leading role in ensuring that the Board and its committees are composed of the relevant skills, competencies and desired experience;

v. Ensuring that Board meetings are properly conducted and the Board is effective and functions in a cohesive manner;

vi. Ensuring that Board members receive accurate and clear information in a timely manner, about the affairs of the company to enable directors take sound decisions.

2.5.5.4: Executive Directors

a) Executive directors, like the CEO/MD, should be persons knowledgeable in relevant areas of the company's activities in addition to possessing such other qualifications as may be needed for their specific assignments or responsibilities.

b) Executive directors should be involved in the day-to-day operations and management of the company. In particular, they should be responsible for the departments they head and should be answerable to the Board through the CEO/MD.

c) Executive directors should not be involved in the determination of their remuneration.

d) The remuneration of executive directors should comprise a component that is long-term performance related and may include stock options and bonuses which should however be disclosed in the company's annual reports.

e) Executive directors should not receive the sitting allowances or directors' fees paid to non-executive directors.

2.5.5.5: Non-Executive Directors

a) Non-executive directors should be key members of the Board. They should bring independent judgment as well as necessary scrutiny to the proposals and actions of the Management and executive directors especially on issues of strategy, performance evaluation and key appointments.

b) Non-executive directors should accordingly be persons of high calibre with broad experience, integrity and credibility.

c) Non-executive directors should be provided with enabling environment for the effective discharge of their duties. Adequate and comprehensive information on all Board matters should be provided in a timely manner.

d) Board papers should be made available to them at least one week ahead of Board or committee meetings.

2.5.5.6: Appointment to the Board

The Board should develop a written, clearly defined, formal and transparent procedure for appointment to the Board of directors. The criteria for the selection of directors should be written and defined to reflect the existing Board's strengths and weaknesses, required skills and experience, its current age range and gender composition. The Board should ascertain whether nominees for the position of directors are fit and proper and are not disqualified from being directors. Shareholders should be provided with biographical information of proposed directors including:

a) Name, age, qualification and country of principal residence;

b) Whether the appointment is executive, non-executive or independent and any proposed specific area of responsibility;

c) Work experience and occupation in the preceding ten years;

d) Current directorship and appointments with statutory or regulatory authorities in the preceding five years;

e) Shareholding in the company and its subsidiaries; and

f) Any real or potential conflict of interest, including whether he is an interlock director or not.

2.5.5.7: Protection of Shareholders' Rights

The Board should ensure that shareholders' statutory and general rights are protected at all times. In particular, the Board should ensure shareholders at AGMs preserve their effective powers to appoint and remove directors of the company. Also, the Board should ensure all shareholders are treated equally. No shareholder, however large his shareholding, nor whether institutional or otherwise, should be given preferential treatment or superior access to information or other materials. It is the responsibility of the Board to ensure that minority shareholders are treated fairly at all times and are adequately protected from abusive actions by controlling shareholders.

The Board should ensure that the company promptly renders to shareholders documentary evidence of ownership interest in the company such as share certificates, dividend warrants and related instruments. Where these are rendered electronically, the Board should ensure that they are rendered promptly and in a secure manner. Shareholder representation on a Board should be proportionate to the size of shareholding. The company should stipulate that shareholders' holding, more than a specified ratio of the total issued capital of the company have a representative on the Board unless there are cogent reasons that make that impracticable.

Further, Code of Corporate Governance 2011 states that all public companies should state in their annual reports how they have applied the Code and the extent of their compliance. In evaluating and reporting on the extent of compliance with the Code, the Board may engage independent experts; where such is done, the name of the consultants should be disclosed. A summary of the reports and conclusions of the consultant shall be included in the company's annual report.

2.5.6: Code of Corporate Governance for Banks in Nigeria (Post-Consolidation, 2006)

This Code recognises the need to augment the earlier codes, especially in the post consolidation era of Nigerian banks. It is important to note that prior to the CBN-Code, there were in existence disparate codes (see Wilson, 2006). Equally notable is the fact that some of the provisions in the CBN Code are already discussed in the SEC–CAC code, thus, provisions that are peculiar to the CBN Code are only highlighted in this section. In the CBN Code, private equity ownership is encouraged over government. Also encouraged is the issue of stock options in compensational schemes. Although the SEC-CAC Code allows for the existence of a strong independent director as Vice-Chairman of the Board in exceptional circumstances where the position of the chairman and chief executive officer are combined in one individual, the CBN Code does not allow this.

The number of non-executive directors should be more than that of executive directors (SEC-CAC Code does not indicate ratio) subject to a maximum board size of 20 directors (SEC-CAC Code advises 15). It stipulates that there should be, as a minimum, risk management committee, audit committee and the credit committee. Suffice to say that apart from few provisions, some of which are already pointed out above, the major difference between the SEC-CAC Code and CBN Code is in the power of the latter to

effect sanctions on erring banks while adherence to the provisions of the former is not compulsory.

2.5.7: Revised Code of Corporate Governance for Banks in Nigeria (Post-Consolidation, 2012)

In April 2012, the Central Bank of Nigeria revised its previous Code of governance for banks' operations in Nigeria as a result of gross corporate failure uncovered in the banking sector. The Code contains the following injunctions:

2.5.7.1: Board and Management

The board is accountable and responsible for the performance and affairs of the bank. Specifically, and in line with the provisions in Companies and Allied Matters Act (CAMA), directors owe the bank the duty of care, loyalty and to act in the interests of the bank's employees and other stakeholders. It is the responsibility of the Board to define the bank's strategic goals, approve its long and short-term business strategies and monitor their implementation by management. It shall also determine the skills, knowledge, experience its members required and work effectively as a team to achieve the bank's objectives. The Board shall ensure that its human, material and financial resources are effectively deployed towards the attainment of set goals of the bank. Members of the Board are severally and jointly liable for the activities of the bank and it shall ensure strict adherence to the Code of Conduct for banks' directors.

2.5.7.2: Size and Composition

The code stipulates the following:

1. The size of the Board of any bank shall be limited to a maximum of twenty (20) and a minimum of five (5).

2. Members of the Board shall be qualified persons of proven integrity and shall be knowledgeable in business and financial matters, in accordance with the extant CBN Guidelines on Fit and Proper Persons Regime.
3. The Board shall consist of executive and non-executive directors. Executive directors shall not be more than 40% of the entire Board size.
4. The Board shall have at least two (2) non-executive directors as independent directors as defined in the Central Bank of Nigeria (CBN) guidelines on the appointment of independent directors.

2.5.7.3: Appointment and Tenure of Board

a. Procedure for appointment to the board shall be formal and transparent.
b. Existing CBN guidelines on appointment to the Board of financial institutions shall continue to be applied.
c. To ensure continuity and injection of fresh ideas, non-executive directors of banks shall be there for a maximum of three (3) terms of four (4) years each.
d. A track record of the appointees shall be an additional eligibility requirement. Such records shall cover both integrity and past performance, in accordance with the extant CBN Guidelines on Fit and Proper Persons Regime.
e. To enhance the effectiveness of directors, the bank shall allow directors access to corporate information under conditions of confidentiality.

2.5.8: Conducts of Shareholders' Associations in Nigeria (2007)

This is designed by the Nigerian Stock Exchange (NSE) to ensure that association members uphold high ethical standards and make positive contributions in ensuring that the affairs of public companies are run in ethical and transparent manners and in compliance with the Code of corporate governance for public companies. Section 1 allows for the establishment of a body of not less than 50 shareholders of public companies as members of one association for the purpose of advancing the interests of its members and influencing the standard of corporate governance to optimise shareholders' values. Item (d) section 2 states that a shareholders' association should promote good governance of public companies and strive to influence corporate and government policies that seek to encourage investment and advance the interests of shareholders. Section 3 on the membership of the audit committee has it that shareholders should ensure that members who are elected into the audit committee of their company have knowledge of accounting and internal control processes.

2.6: Regulatory Framework

2.6.1: Securities and Exchange Commission (SEC).

The Investment and Securities Act of 1999 established the Securities and Exchange Commission (called the "Commission or "SEC") as a corporate body with perpetual succession and a common seal. The Securities and Exchange Commission (SEC) is responsible for the overall regulations of the capital market. It was formerly called the Capital Issues Commission; the SEC was established by the SEC Act of 27th September 1979, which was further strengthened by the SEC Decree of 1988. It is the apex regulatory organ of the capital market. The Commission approves and regulates mergers and acquisitions and authorises the establishment of unit trusts. The SEC maintains

surveillance over the market to enhance efficiency. It issues guidelines on the establishment of stock exchanges in furtherance of the deregulation of the capital market. The Commission can sue and be sued in its corporate name, and may acquire, hold or dispose any property, movable or immovable for the purpose of carrying out any of its functions under the Act.

Functions of Securities and Exchange Commission (SEC)

The Commission is charged with the following duties and functions under the Act:

a) To facilitate the establishment of a nationwide system for securities trading in the Nigerian Capital Market in order to protect investors and maintain fair and orderly market;

b) To facilitate the linking of all markets in securities through modern communication and data processing facilities in order to foster efficiency, enhance competition, and increase the information available to brokers, dealers and investors;

c) To act in the public interest having regard to the protection of investors and the maintenance of fair and orderly market and to this end, to establish a nationwide trust scheme to compensate investors whose losses are not covered under the investors' protection funds administered by Securities Exchanges and Capital Trade Points;

d) To keep and maintain separate registers for foreign direct investments and foreign portfolio investments;

e) To register and regulate central depository companies and clearing all settlement companies, custodians of securities, credit rating agencies and such other agencies and intermediaries;

f) To act as a regulatory apex organisation in the Nigeria capital market including; the promotion and registration of self-regulatory organisations and capital market trade associations to which it may delegate its powers;

2.6.2: The Nigerian Stock Exchange (NSE)

The Nigerian Stock Exchange was incorporated in Nigeria as a private company limited by shares on 15 September, 1960 as Lagos Stock Exchange (LSE) and started business on 5th June 1961. In December 1977, LSE was changed to the Nigerian Stock Exchange (NSE). It was re-incorporated as a company limited by guarantee on 18 December, 1990. The NSE is a non-profit making, limited by guarantee, incorporated via the inspiration and support of businessmen and the Federal Government of Nigeria. It is owned by 135 shareholders made up of financial institutions, stockbrokers and individual Nigerians. It is a self regulatory organisation with oversight functions on the professional activities of its members, that is, stockbrokers who trade on its floors. The NSE is required to provide periodic report of its activities to the SEC. The NSE now has 13 branches across Nigeria other than its world-class trading floor in Lagos. These are: Abuja, Kaduna, Port Harcourt, Kano, Onitsha, Ibadan, Yola, Benin, Uyo, Ilorin, Abeokuta, Owerri and Bauchi. The stock exchange creates a marketplace where companies can raise capital.

It comprises of two-tiers listing markets: the First- Tier Securities Market (FSM) and the Second-Tier Securities Market (SSM). The FSM consists of big blue- chip tested companies with huge capitalisation while the SSM houses emerging small-scale companies that are less prominent. SSM was established on 30th April 1985 to assist small and medium-sized companies. To encourage the development of the SSM, the stringent

conditions for enlistment in the first-tier market were relaxed for indigenous enterprises seeking to raise funds through the SSM.

Functions of the Nigerian Stock Exchange

i. It provides the essential facilities for companies that are unable to meet the requirements of the first-tier market (FSM) in raising long-term capital and government to raise money for business expansion and development projects for the ultimate economic benefits of the society.

ii. It lists and delists erring quoted companies on the exchange.

iii. It serves as a forum for discussion of relevant national policy issues.

iv. It serves also as a broad communication arena for its constituencies and the dual role of overseeing the markets and their member-firm participants.

v. The exchange helps to build public confidence and participation in the market, enhancing issuers' ability to raise capital in the primary market and underscoring the importance of efficient capital management.

vi. Supervising listed firms, compliance with listing requirements, ensuring that required quarterly and annual reports are filed, earnings and dividend distributions are reported etc.

2.6.3: Stockbrokers

A stockbroker is a dealing member of the stock exchange who is licensed to trade in stocks, shares and bonds on the stock market; and accepts to be bound by the rules and regulations of the exchange.

Functions of Stockbrokers:

i) Intermediate between investors and corporate firms;

ii) Advisors to investing public.

iii) Receive applications and forward them to issuing houses and/or the Registrar;

2.6.4: The Registrars

The Registrars are to deal **ONLY** with the Stock broking firms acting on behalf of investors/shareholders.

Functions of the Registrars:

a) Help to package issues;

b) Receive/reject application forms and prepare acceptance/allotment;

c) Issue certificates to successful subscribers;

d) Help in the transfer process;

e) Return amount paid (with interests where applicable) on application if in excess of the allotment;

f) Maintain registers of subscribers and consequently the members.

2.6.5: Issuing Houses/Underwriters

Underwriting is an arrangement whereby an issuing house undertakes to pay an issuer of a security an amount based on the price of the security, less permissible commission to forestall the possibility of undersubsription with a view to re-selling the security and not as a form of investment. Issuing Houses/underwriters are financial institutions that specialize in helping corporate bodies (Issuers) or governments to raise funds from the primary segment of the capital market.

Functions of Issuing Houses/Underwriters:

I. Financial advisory services;

II. Fundraising;

III. Underwriting;

IV. Giving/negotiating bridging loans to issuers.

2.6.6: Solicitors to Offers/Issues

A solicitor to a company is the representative of a company. He ensures that in offering an issue to the public, the company complies with all the statutory provisions guiding public offerings of securities.

Functions of Solicitors to Offers/Issues:

- Handle all legal matters relating to the issue/offer;
- Help in the transfer process;
- Prepare the Trust Deed where necessary;
- Perfect all the assets used as securities for borrowing, in case of debentures.

2.6.7: Reporting Accountants to the Issues/Offers

The reporting accountants are a group of professional accountants who give independent opinions on the state of affairs of the companies based on information presented to them in order to help any firm that wants to raise money in the NSE to project its profitability at the end of the offers.

Functions of Reporting Accountants to the Issues/Offers:

i) Review the accounting bases and calculations on which the profit forecasts are based;

ii) Report on findings in respect of the review;

iii) Examine and report the immediate five years audited accounts of the company.

2.6.8: Trustees to Offers/Issues

Trustees are a group of persons or an institution which may be a bank or an insurance company appointed under the Trust Deed to supervise the activities of the managers and look after the interests of the unit holders. Legally, they are owners of the trust fund and trust assets are vested in them, though these are held in trust for the benefit of unit holders.

Functions of Trustees to Offers/Issues:

- Ensuring that the terms of the Trust Deed are complied with;
- Issuing certificates, creations and liquidation of units;
- Ensuring that the prices of the units are correct;
- Taking care and also holding in custody, assets of the trust;
- Ensuring that investment policies followed by the managers are in line with the advertisement and the provision of the Trust Deed;
- Registration of units and unit holders.

The various regulations (CAMA, Codes of Corporate Governance, etc) identified a firm's transparency, due process, data integrity and disclosure requirement as the core attributes of good governance practices. However, compliance with them was made mandatory but sanctions for non-compliance are not duly implemented.

CHAPTER THREE

LITERATURE REVIEW

3.0: Introduction

This chapter presents review of the relevant literature pertinent to the relationship between CG indicators and DPs; and the link between CG and DPs according to size dimension and sectoral classification. The review is structured into theoretical, methodological and empirical. It evaluates CG theories, dividend theories, corporate governance indicators and its relationship with dividend payouts. Comments on the similarities and differences between past studies, controversies and gaps in knowledge are highlighted.

3.1: Theoretical Review

3.1.1: Corporate Governance Theories

3.1.1.1: Agency Theory

One crucial and general theory that has been extensively examined in literature and received supporting evidences on the significance of corporate governance is agency theory. The source of agency problems dates back to the Berle and Means (1932) study in the United States of American's stock market. They argued that the conflict of interests and information asymmetry between shareholders and managers were the reasons, shareholders incurred high costs of the agency. This issue was raised by Adam Smith over three centuries ago in his commentary on joint stock companies, as cited by Cadbury (2002). Berle and Means' (1932) concerns were later developed and formalised by Jensen and Meckling (1976) into what has subsequently become known as agency theory.

Jensen and Meckling (1976) define the agency relationship as one party's (the owners) contract with another party (the manager) to perform services on its behalf. The existence of agency problems was because managers would not always act in the best interest of the shareholders in preference to gain personal benefits. However, shareholders might protect their own interests by incurring monitoring costs to ensure that managers would not take certain actions which would harm their wealth. It is believed that managerial behaviour is rooted in self-interest, managerial opportunism and, therefore, managers might not behave in the best interests of the principals (Fama and Jensen 1983). Shleifer and Vishny (1998) provided an explanation of the shareholder – manager conflict as follows:

> '... like the rest of us, corporate managers have many personal goals and ambitions, only one of which is to get rich. The way they try to run their companies reflects these personal goals. Shareholders, in contrast, deprived of the pleasures of running the company, only care about getting rich from the stock they own. Hence, when managers ignore profits to keep up traditional kinds of business, conflicts are bound to arise. While many academic papers teach us that shareholders and market pressure will force managers to maximise value, the newspapers remind us that this is not always the case. Much corporate behaviour seems best understood in terms of managers running the firms how largely as they please ...'

Another source of the agency cost problem that might be influenced by individual policy was the potential conflicts between shareholders and bondholders. The shareholders were considered agents of bondholders' funds. In this case, excess dividend payment to shareholders might be taken as shareholders expropriating wealth from bondholders (Jensen and Meckling, 1976). The shareholders had limited liability and they could assess the company's cashflow before bondholders; consequently, bondholders preferred to put constraints on dividend payment to secure their claims. Therefore, shareholders

were able to monitor managers at low cost (and minimise any collective action problems). This suggests that dividend payments increased management scrutiny by outsiders and reduced the chances for managers to act in their own self-interest. However, he submits that increasing dividend payment might force managers to take undesirable actions like increasing firm leverage, which might sometimes increase the riskiness of the firm.

According to Jensen's (1986) agency theory, dividend payout was determined by agency costs arising from the divergence of ownership and control. Due to the agency costs, managers might not always adopt a dividend policy that was value-maximising for shareholders; rather, they might choose dividend policy that maximises their private benefits. Dividend payouts were argued to reduce agency conflicts by reducing the amount of free cash flow, which could be used by managers for their private benefits rather than for maximising shareholders' wealth.

Agency theorists considered a system of corporate governance as efficient if it ensured suppliers of finance get appropriate returns on their investment. The interests of other stakeholders, such as employees, suppliers and customers, were mediated by labour and product markets. As agency theory models generally assume that these markets were functioning efficiently, this sufficed to guarantee their interests. Weak corporate governance could lead to principal-agent conflicts between owners and management and among different groups of owners (Shleifer and Vishny, 1997).

Based on the literature, two opposing hypotheses of agency theory were advanced to explain the association between corporate governance and dividend payouts: outcome and substitution hypotheses. First, the outcome hypothesis suggests dividend payout is an

outcome of corporate governance. In firms with weak governance, opportunistic managers were able to retain more cash within the firm, making it more likely for the managers to spend cash to enhance their private benefits at the expense of shareholders. Dividend payout was thus expected to be lower in these firms than in those with strong governance. This hypothesis predicts a positive association between the two (Jiraporn et.al, 2006; La Porta et al, 1999; 2000).

According to the outcome hypothesis, a dividend is a result of the effective pressure by minority shareholders to force insiders to pay out profits. Governance practices such as the power to change directors, induced payout, sue directors or liquidate the firm and receive the proceeds were some of the mechanisms that protected minority shareholders. In such firms, shareholders' insistence on the distribution of excess cash was less likely to fall on deaf ears than in firms with attributes, associated with managerial entrenchment or weak governance. The 'correct' dividend policy was the outcome of the governance regime in this view because managers of firms with good governance were more likely to act in the interests of shareholders and pursue value-maximising policies, such as payment of dividends when the firm's fundamentals warranted such a policy, than were managers of firms with weak governance (Sawicki, 2009).

In contrast, the substitution hypothesis argues that firms with weak governance pay large dividends to substitute for their poor governance. Investors observe that firms with weak governance might be more prone to managerial entrenchment and rationally anticipated the larger extent of the free cash flow problem. As a result, investors demanded larger dividends from firms with poor governance than from firms with strong governance as paying dividends decreases the free cash flow and; reduce what is left for expropriation

by opportunistic managers. In other words, the substitution view implies an inverse association between dividend payouts and corporate governance (Jiraporn et.al, 2006; La Porta et al, 1999; 2000; Sawicki, 2009).

In addition, the substitution hypothesis predicts that weak minority shareholders' rights are associated with high dividends. According to this model, insiders could use dividend payout to establish a reputation for decent treatment of minority shareholders. An important element in this view was the need for firms to assess funds in capital markets. Lowering the cost of future funds provided the incentive to establish a positive reputation with minority shareholders. In this sense, the payout was more valuable in countries with weak legal protection as outsiders did not have other protective measures on which to rely.

A basic conclusion of agency theory is that the value of a firm cannot be maximised because managers possess discretions which allow them to expropriate value to themselves. However, the agency problem depends on the ownership characteristics of each country. In countries where ownership structures are dispersed, if the investors disagree with the management or are disappointed with the performance of the company, they use the exit options, which will be signaled through reduction in share prices. Whereas in countries with concentrated ownership structures and large dominant shareholders, the Board tends to control the managers and expropriate minority shareholders in order to gain private control benefits (Spanos, 2005).

The agency theory's assumption that the interests of the owners/shareholders are potentially at risk from executive self-interest, in the absence of close monitoring of

independent non-executives is not generally acceptable. It is important to note that agency theory is deductive in its methodology. Its assumptions have been the subject of extensive empirical research, but this has typically relied on the testing of various propositions in relation to large data sets. However, agency theorists take self-interested opportunism as a given. They feel no need to explore the attitudes, conduct and relationships that actually create board effectiveness. Instead they have busied themselves with exploring the effectiveness of the various mechanisms designed to make executive self-interest serve shareholders' interests (Roberts and Young, 2006). Agency theory assumptions have nevertheless been highly influential in shaping the reform of corporate governance systems.

3.1.1.2: Stakeholders Theory: Due to subsequent research efforts, the agency theory's scope was widened to include not just the equity holders, but all other stakeholders, including employees, creditors, government, customers, suppliers etc. The idea was originally developed by Freeman in the 1980s. Stakeholder theory challenges agency theory's assumptions about the primacy of shareholders' interests. Instead, it argues that a company should be managed in the interests of all its stakeholders. These interests include not only those of the shareholders but also a range of other direct and indirect interests. The employees are obviously key stakeholders and there have been long-running arguments amongst governance academics (Blair, 1995), that those employees just as much as shareholders are 'residual risk-takers' in a firm. An employee's investment in firm-specific skills means that he too should have a voice in the governance of the firm. It also insists that other groups such as suppliers and customers have strong direct interests in company performance while local communities, the environment as well as society at large have legitimate indirect interests (Roberts and Young, 2006).

Stakeholder theory explains better the role of corporate governance than the agency theory by highlighting different constituents of a firm (Coleman, 2008). In relation to company performance, however, it has made a number of key contributions. One, importance is given to corporate value statements, as well as the board's role in creating corporate ethics, codes, social and environmental reporting. These reflect an acknowledgement of a wider set of corporate obligations beyond the delivery of shareholders' value. It insists that performance must be realised within certain ethical constraints (Roberts and Young, 2006). Through it, ethical codes are pursued vigorously. It provides managers with a way to explore the inter-dependencies between customers' needs, and what the company must do operationally to meet these needs and sustain competitive success. It has both an immediate performance focus as well as pointing to key areas for continuous improvement and innovation. Stakeholder theory has become more prominent because many researchers have recognised that the activities of a corporate entity impart on the external environment requiring accountability of the organisation to a wider audience than simply its shareholders.

The argument that is repeatedly raised against a stakeholder view of the firm is that it is hard to operationalise because of the difficulties of deciding what weight should be given to different stakeholders' interests. In terms of corporate governance, it is argued that, were executives to be made accountable to all of a company's stakeholders; they would in effect be answerable to none. Jensen (2001) critiques the stakeholder theory for assuming a single-valued objective (gains that accrue to a firm's constituency). He suggested that the performance of a firm is not and should not be measured only by gains to its stakeholders. Other key issues such as flow of information from senior management to

lower ranks, interpersonal relations, working environment, etc. are all critical issues that should be considered since they provide a platform for other arguments.

Finally, the logical conclusion to the stakeholder approach is its generalisation to all the parties to the nexus of contracts, contributing to the formation of an organisation rent; which depends on the particular skills offered, notably in long-term cooperation relationships, by certain suppliers, sub-contractors or customers. Such an approach assumes that the relationships between the firm and the different stakeholders are not reduced to simple market exchanges governed by prices, but are rather frequently co-constructed (Jensen, 2001). An extension of the theory called an enlightened stakeholder theory was proposed for the practical value of accountability to shareholders even if a board takes other interests into account in its conduct of a firm. However, problems relating to empirical testing of the extension have limited its relevance (Sanda et. al., 2005).

3.1.1.3: Resource Dependence Theory

Resource dependence ideas were originally developed by Pfeffer and Salancik (1978) in the late 1970s. Unlike agency theory, their original ideas were inductively derived from empirical studies (Williamson, 1985; Donaldson and Davis, 1991). The basic proposition of resource dependence theory is the need for environmental linkages between the firm and outside resources. In this perspective, directors serve to connect the firm with external factors by co-opting the resources needed to survive (Pfeffer and Salancik, 1978). Thus, Boards of directors are an important mechanism for absorbing critical elements of environmental uncertainty into the firm. In addition, it derives its insight from the fact that board members are also members of the boards of other firms, and this

creates a web of linkages to competitors and other stakeholders. Linkages which are also created with the firm's external environment help assess important resources and create buffers against adverse external changes (Riana, 2008).

Its key contribution is the observation that the Board, and in particular the constitution of the non-executive element of a Board, can provide the firm with a vital set of resources: 'when an organisation appoints an individual to its Board, it expects that the individual will support the organisation, in concerning himself with its problems, and will variably aid it' (Pfeffer and Salancik, 1978). Seeing the Board as a source of resources for a company opens up a very different way to think about the Board's role in creating high performance. Non-executive directors can be a source of expertise which executives can draw upon, both in the form of specific skills as well as advice and counsel in relation to strategy and its implementation. They can also serve as an important source of contacts, information and relationships that allow executives to better manage some of the uncertainties in the environment. These relational resources can be both practical and symbolic; the association of particular individuals with a company has the potential to enhance the reputation or perceived legitimacy of an executive team.

Resource dependence theory considers the very different needs that companies have at different stages of their life-cycle. The young entrepreneurial firm, even if owner managed, can look to its non-executive directors as a source of skills and expertise that it cannot afford to employ full time. Hence, the non-executive is a relatively cheap source of part-time legal, financial or operational management skills that are not otherwise available to the entrepreneur. Once a firm is publicly listed, then the provision of expertise will have to be blended with 'grown-up governance'. The value of the non-

executive lies not only in their expertise but also through their networks that give the company ready access to new markets or to sources of finance, as well as in the reputation benefits that arise from an individual's association with the company (Roberts and Young, 2006).

Additionally, it underscores the importance of Board as a resource and envisages a role beyond their traditional control responsibility considered from the agency theory perspective. The agency view of the non-executive directors emphasises their local policing role on behalf of investors, resource dependence theory sees the non-executive primarily as a context specific resource to support the performance of both the executives and the company. The non- executive might be vital as a source of expertise in relation not only to the delivery of financial performance but also in the management of other key sources of business risk; for example in relation to regulation or government policy, consumer confidence or their knowledge of campaign or pressure groups.

3.1.1.4: Stewardship Theory

In contrast to agency theory, stewardship theory presents a different model of management, where managers are considered good stewards who will act in the best interest of the owners (Donaldson and Davis 1991). The fundamentals of stewardship theory are based on social psychology, which focuses on the behaviour of executives. The steward's behaviour is pro-organisational and collectivists, and has higher utility than individualistic self-serving behavior and the steward's behavior will not depart from the interests of the organisation because the steward seeks to attain the objectives of the organisation (Davis, Schoorman and Donaldson 1997). It assumes that stewards balance tensions between different beneficiaries and other interest groups. Therefore, stewardship

theory is an argument put forward in firm performance that satisfies the requirements of the interested parties resulting in dynamic performance equilibrium for balanced governance.

Stewardship theory sees a strong relationship between managers and the success of the firm, and therefore; the stewards protect and maximise shareholders' wealth through firm performance. A steward, who improves performance successfully, satisfies most stakeholder groups in an organisation; when these groups have interests that are well served by increasing organisational wealth. Its focus is on structures that facilitate and empower rather than monitor and control (Davis, Schoorman and Donaldson 1997). It refutes the assumption that executives' aims and motives are opposed to those of the shareholders. It takes a more relaxed view of the separation of the role of chairman and CEO; and supports appointment of a single person for the position of chairman and CEO and a majority of specialist executive directors rather than non-executive directors (Clarke 2004). When the position of the CEO and Chairman is held by a single person, the fate of the organisation and the power to determine strategy is the responsibility of a single person. However, stewardship theory's validity is still debatable in that managers, as stewards in practical terms demonstrate 'opportunism' in firms where ownership is highly dispersed.

Among various theories discussed, the agency theory perspective was the most popular and has received a great deal and numerous attentions from academics (Jensen and Meckling, 1976; Fama and Jensen, 1983) as well as practitioners. It provides the basis for governance standards, codes and principles developed by many institutions (CalPERS, 1999; OECD, 1999, 2004; ICGN, 1999, 2005).

3.2: Corporate Governance Mechanism

Agency theory suggests governance mechanism, as a guide in protecting the interests of all stakeholders of an organisation (Band, 1992). In the literature, there are two broad categories of corporate governance mechanism: internal and external. These two broad categories are discussed below.

3.2.1: Internal Mechanism

A well governed company has the responsibility of balancing the roles of three groups of players: shareholders, board of directors and managers, while meeting all of its financial commitments and other obligations to a broad array of stakeholders. Shareholders provide capital in return for the opportunity to benefit from profits and increases in value of the firm. Shareholders have a range of rights and powers under law and regulation that can include the right to elect and remove directors and auditors; to appoint and approve or disapprove fundamental changes, such as mergers or changes in capital structure.

The internal mechanism consists of bonding and monitoring control (ownership structure, ownership concentration, institutional shareholding, board composition, board size and debt). Ownership structure constitutes a significant mechanism that prevents management from deviating from shareholders' interests. The free-rider problem is minimised and internal constraints on managerial discretion can probably be imposed if ownership is concentrated in the hands of a large block of shareholders irrespective of whether they are individuals, organisations or investment funds. In this event, the returns to monitoring will increase monitoring activity, which may also be subject to economies of scale (Sanda, Mikailu and Garba, 2005).

The board is an alternative mechanism where ownership is highly fragmented. It is directly elected by the shareholders to act on their behalf. A high level of its independence is important for it to perform its monitoring duties effectively. The standard view is that the Board of directors is more independent as the number of outside directors increases. The Board is required to play a significant role in directing the company. It is to act as a check list in providing accurate, relevant and timely information. It is expected to act with due diligence while exercising impartiality with respect to classes of stakeholders in the firm. It also acts as a control instrument to protect the interests of shareholders against deviating behaviours of managers.

Debt is a useful tool for reducing the agency problem. Large creditors, like large stakeholders, also have interest in seeing that managers take performance-improving measures. Debt holders are entitled to claims and these have the tendency to rise at low levels of firm performance, and to remain constant beyond a certain level of that performance (Ibid).

The internal governance indicators (institutional shareholding, board size, number of independent directors and directors' shareholding) are the focus of this study. The choice is based on the fact that:

a. They are more flexible in principle and can be varied as circumstances dictate.
b. They are arguably reasonable from the agency assumption that corporate governance encourages managers to serve the interests of shareholders thereby reducing the conflict of interests between the two.

3.2.2: External mechanism

The external mechanism is made up of competitive capital market, managerial labour market and competitive product markets. Legal and regulatory obligations are part of the external incentive structure designed to ensure that competing companies abide by common standards of fairness, transparency, accountability, and responsibility to protect shareholders, consumers, workers, the environment and even competitors from abuse. A good legal and regulatory framework efficiently addresses the entry, operations and exit of firms. Other external elements are developed by national and international bodies on best practices (quality of disclosure, accounting and auditing standards, labour rules, environment standards, industrial product standards, listing requirements) and other areas of practice in law that could lead to overregulation and curb entrepreneurial spirit (Sanda *et.al*, 2005).

Equity and debt markets impose substantial discipline on managements of corporate firms. Equity markets continuously monitor and place an objective value on corporations and, by extension, on their managements. The day-to-day performance of a company's shares on a stock exchange is a transparent reminder to managers and shareholders of the company's perceived viability and value. This assessment permits shareholders to assess managements' performance and gives managers an incentive to minimise the costs of equity, since failure to do so will make them vulnerable to takeover. An active capital market for corporate control, fluctuations in stock prices and the influence of shareholders keep managers focused on efficiency and commercial success. However, effectiveness of external mechanism with respect to corporate governance is generally problematic. Nigerian capital market is not competitive as product market and also it does not provide effective deterrent to non-shareholders' wealth maximising behaviour of managers. Also

managerial labour market is not competitive due to the fact that nepotism and favouritism in appointments of corporate managers are common in Nigeria (Ibid).

3.3: Dividend Payouts Theories

Several theoretical explanations have been offered for the identification of the key determinants of dividend payouts in literature, the relevant major theories are discussed below.

3.3.1: Bird-in-the-hand theory

Bird in the hand hypothesis as propounded by Gordon in 1956 states that high dividend increases firm value and its riskiness. It assumes that in a world of uncertainty and imperfect information, dividends are valued more than retained earnings (capital gains). His argument for a relationship between the value of the firm and dividend payout was that although; the dividend decision could not change the present value of the cash payments to shareholders, it could affect the temporal pattern of payouts. The essence of the bird-in the-hand theory of dividend policy (Lintner, 1962) is that shareholders are risk-averse and prefer to receive dividend payments now than future capital gains.

Shareholders consider dividend payment to be more certain than future capital gains, thus a "bird in hand is worth more than two in the bush". Gordon (1963) contends that the payment of current dividends "resolves investors' uncertainty" in that investors prefer a certain level of income now than the prospect of a high, but less certain income at sometime in the future. Also, he concludes that the risk of the firm is determined by the riskiness of the cash flows from its projects. An increase in dividend payout today would result in an equivalent drop in the ex-dividend price of the stock. Empirical support of

bird in the hand theory is limited. Bhattacharya (1979) suggests that the reasoning underlying bird in the hand theory is fallacious. He affirms that the firm's risk affects the level of dividend and not the other way round; implying that the riskiness of a firm's cash flow influences its dividend payment but increases in dividends will not reduce the risk of the firm.

Although, bird-in-hand hypothesis provides a simple framework to explain the relationship between the market value of shares and dividend policy but it has some unrealistic assumptions. The assumption of no external financing apart from retained earnings for further investments is not tenable I real world. Also,the constant 'r' and 'k' are seldom found in real life because as a firm invests, its business risks change.

3.3.2: Dividend Irrelevant Hypothesis

Miller and Modigliani (1961) demonstrate that under certain idealistic assumptions of a perfect capital market, a world without taxes with rational investors, dividend policy would be irrelevant. Given those assumptions, shareholders' wealth was not affected by the dividend decision and therefore they would be indifferent between dividends and capital gains. They argue that regardless of how the firm distributed its income, its value was determined by its basic earning power and its investment decisions. They also state that "... given a firm's investment policy, the dividend payout policy it chooses to follow will affect neither the current price of its shares nor the total returns to shareholders". Further they posited that, to an investor, all dividend policies are effectively the same; and that the availability of external financing in a world without information asymmetry or transaction costs makes the value of the firm independent of its dividend policy.

In practice, however, M & M assumptions are questionable where the owners of the firm are distinct from its management. In this case, managers are always imperfect agents of shareholders (principals). This is because managers' interests are not necessarily the same with shareholders; as consuming excessive perquisites or over-investing in managerially rewarding but unprofitable activities. Shareholders therefore incur (agency) costs associated with monitoring managers' behavior, these agency costs are implicit costs resulting from the potential conflict of interests among shareholders and corporate managers. The payment of dividend might serve to align the interest and mitigate the agency problems between managers and shareholders, by reducing the discretionary funds available to managers (Rozeff, 1982; Easterbrook, 1984; Jensen, 1986 and Alli, Qayyum and Ramirez, 1993).

In addition, M & M hypothesis is irrelevant mainly because of its assumptions of a perfect world without taxes and perfect market. In real world, however, these assumptions do not hold because firms pay corporate taxes and there are many imperfections that attract arbitrage opportunities. Also, the assumption that shareholders are indifferent to current dividends or prospective future capital gains is debatable because the probability of bankruptcy, loss of market value or financial distress cannot be ruled out for any particular firm in the future. Others theories have been developed with the relaxation of M & M assumptions.

3.3.3: Clientele Effect of Dividend Hypothesis

In their seminar paper, Modigliani and Miller (1961) note that the pre-existing dividend clientele effect hypothesis might play a role in dividend policy under certain conditions. They point out that the portfolio choices of individual investors might be influenced by

certain market imperfections such as transaction costs and differential tax rates to prefer different mixes of capital gains and dividends. They argue that these imperfections might cause investors to choose securities that reduced their costs. They termed the tendency of investors to be attracted to a certain type of dividend – paying stock a "dividend clientele effect". Nonetheless, they maintain that though the clientele effect might change a firm's dividend policy to attract certain clienteles in a perfect market, each clientele is "as good as another", hence the firm valuation is not affected. Therefore, dividend policy remains irrelevant.

In practice, investors often face different tax treatments for dividend income and capital gains, and incur costs when they trade securities in the form of transaction cost and inconvenience (changing portfolios). For these reasons and based on different investors' situations, taxes and transaction costs might create investors clientele, such as tax minimisation induced clientele and transaction cost minimisation induced clientele. These clienteles would be attracted to firms that follow dividend policies that best suit their particular situations. Similarly, firms might tend to attract different clientele by their dividend policies. For example, firms operating in high growth industries that usually pay low (or no) dividend attract a clientele that prefers price appreciation (in the form of capital gains) to dividends. On the other hand, firms that pay a large amount of their earnings as dividends attract clientele that prefer high dividends (Copeland, Weston and Shastri, 2005).

Allen, Bernardo and Welch (2000) suggest that clientele such as institutional investors tend to be attracted to invest in dividend-paying stock because they have relative tax advantage over individual investors. These institutions are often subjected to restrictions

in institutional charters (such as the "prudent man rule"), which to some extent prevented them from investing in non-paying or low-dividend stocks. Similarly, good quality firms preferred to attract institutional clientele (by paying dividends) because institutions are better informed than retail investors and possess ability to monitor or detect firm quality.

It is worth noting that dividend clientele hypothesis predictions, to some extent, might contradict other explanations of dividend policy such as the signaling and agency cost hypotheses. For example, according to the signaling hypothesis, dividend conveyed information about a firm's future prospects, and in that sense investors with preference for capital gains (for tax reasons) might still prefer firms with high pay-out ratios, contradicting the prediction of the tax induced clientele hypothesis. Also based on agency theory, dividends might mitigate the free cash in hand of managers and reduce the agency problems, and for these reasons, investors might prefer high-dividend stocks though they are tax-disadvantaged (Copeland *et.al*, 2005).

3.3.4: Tax Preference Theory

Modigliani and Miller (1961) assumed absence of tax levy but that it exists in the real world and might have significant influence on dividend policy and consequently the value of a firm. The tax preference hypothesis suggests that low dividend payout ratios contribute to maximising a firm's value. This argument is based on the assumption that dividends are taxed at higher rates than capital gains. In addition, dividends are taxed immediately they are declared, while taxes on capital gains are deferred until the stocks are actually sold (Al- Malkawi, Rafferity and Pillai, 2010). The tax advantage of capital gains, over dividends tends to predict investors, who have favourable tax treatment on capital gains, to prefer companies that retain most of their earnings rather than pay them

out as dividends, and are willing to pay a premium for low-payout companies (Ibid). The tax-effect hypothesis is almost the exact opposite of the bird in hand hypothesis and also a challenge to the strict form of the dividend irrelevance proposition.

3.3.5: The Signaling Hypothesis

This is another hypothesis for why M & M's dividend irrelevance hypothesis is inadequate in the existence of information asymmetry between insiders and outside shareholders. According to the hypothesis, investors can infer information about a firm's future earnings through the signal coming from dividend announcement. The hypothesis was not modeled until the late 1970's and 1980's (Bhattacharya, 1979; John and Williams, 1985; and Miller and Rock, 1985). The announcement of a dividend conveys information about the future prospects of a firm, if the dividend had an unexpected component. These abnormal rates of return on the announcement date are a test of the information signaling content of the dividend. Most firms that pay dividends exhibit behaviours that result in constant dividend payouts that are increased only when management is relatively certain that the higher dividend payout could be maintained indefinitely. Given this type of management behavior, it is likely that investors will interpret an increase in current dividend payout as a message that management anticipates permanently higher levels of cash flows from investment. The dividend announcement served as a message from management that the firm is anticipated to do better.

The hypothesis views dividend payouts to shareholders as payment of collaterisable assets and if debt covenant meant imperfect protection, then debt holders and preferred shareholders would view dividend increases as bad new; and market values of their claims on the firm would fall upon the announcement of dividend increases. On the other

hand, if dividend increases were signals about higher future cash flows, then bondholders and preferred stockholders should feel more secure and the market value of their claims should increase (Wooldridge, 1983).

However, managers may use dividends to signal information, but dividend changes may not be the perfect tool. Easterbrook (1984) concluded that 'dividend increase may not be an ambiguous signal unless the market can distinguish between growing forms and disinvesting firms'.

3.4: Methodological Review.

Testing the hypothesised relationship between CG and DPs, the following are the models used in previous studies:

3.4.1: Models

Rozeff (1982), formally modeled the agency costs using a large sample of US firms. Rozeff's regression model and the hypothesised signs of the variables are as follows:

$$PAY = \beta_0 - \beta_1 INS - \beta_2 GROW^1 - \beta_3 GROW^2 - \beta_4 BETA + \beta_5 STOCK + e \quad \text{.....(1)}$$

Where *PAY* is the average payout ratio over a seven year period (1974 to 1980), *INS* is the percentage of common stock held by insiders over the seven year period; $GROW^1$ is the realised average growth rate of a firm's revenues over a five year period (1974 to 1979), $GROW^2$ is the forecasted growth of sales over the five year period (1974 to 1979), *BETA* is the firm's estimated beta coefficient reported in the Value Line Investment Survey, and

STOCK is the natural log of the number of shareholders at the end of the seven year period.

The key idea of Rozeff's (1982) model was that the optimal dividend payout was at the level where the sum of transaction costs and agency costs were minimised, therefore the model was called "cost minimisation model". Rozeff's model used two proxies for agency costs, namely *INS* and *STOCK*. It should be noted that the hypothesised signs of these variables (*INS* and *STOCK*) were negative and positive respectively. This indicated that there was a negative relationship between the percentage of stock held by insiders (insider ownership) and the payout ratio; and a positive relationship between the number of shareholders (dispersion of ownership) and the dividend payout ratio. Rozeff (1982) suggests that the benefits of dividends in reducing agency costs were smaller for companies with a lower dispersion of ownership and/or higher insider ownership. He finds the agency costs variables significant and consistent with their hypothesised signs; thus his results provide empirical support for the agency costs theory.

Jiraporn and Ning (2006) considered the following models to test the causal relationship between the Governance Index and the ratio of cash dividends to earnings:

$$DIV_t = \alpha_1 - \delta_1 GI_{t-1} - \delta_2 DIV_{t-1} + othercontrol\ \text{var}iables + \mu_1 \quad \ldots\ldots (2)$$

$$G_{it} = \beta_1 + \gamma_1 GI_{t-1} + \gamma_2 DIV_{t-1} + othercontrol\ \text{var}iables + \varepsilon_1 \quad \ldots\ldots (3)$$

In the models above, μ_1 and ε_1 were uncorrelated with error terms. If $\delta_1 \neq 0$ and $\gamma_2 \neq 0$, the authors inferred an endogenous bi-directional relationship between shareholders' rights and dividend policy. If $\delta_1 \neq 0$ and $\gamma_2 = 0$, then, it was more likely that the

Governance Index affected dividend policy. If $\delta_1 = 0$ and $\gamma_2 \neq 0$, it was more likely that dividend policy affected shareholders' rights. If both $\delta_1 = 0$ and $\gamma_2 = 0$, the indication was that dividend policy had no relationship with shareholders' rights. The sample of Jiraporn and Ning (2006) consisted of 5,442 firms' year observation from 2001 to 2004. They employed year-end data on governance standards provided by the Institutional Shareholder Service (ISS). The scope of the governance data was very broad, encompassing 62 governance standards in eight categories as defined by ISS. They compiled their sample from the Investors Responsibility Research Centre (IRRC) corporate governance database for about 1500 firms on New York Stock Exchange. Both univariate and multivariate analyses were employed in their estimation.

In addition, Kowalewski, Stetsyuk and Talavera (2007) employed a multiple regression framework to control for firm-specific characteristics. Their model is specified as follows:

$$\frac{Dividend_{it}}{Cashflow_{it}} = \alpha + \beta TDI_1 + Control_{it} + \varepsilon_{it} \quad \ldots\ldots(4)$$

Where i and t refer to firm and time respectively, β is a vector of Transparency and Disclosure Index (TDI), the vector control included debt to asset ratio and size.

Adjaoud and Ben–Amar (2010) got their data from a National Canadian Newspaper (The Globe and Mail), Stock Guide Database and annual reports of firms listing on the Canadian Stock Exchange. Their sample consisted of 714 firm- years listed on the Toronto stock exchange over the period 2002 to 2005. Firm level financial information

was gathered from Stock Guide Database and companies' annual reports. They used Granger Causality Test to test for the existence of endogeneity between corporate governance and dividend payouts. They also followed the same methodology as Jiraporn and Ning (2006), to explore the causal relation between governance score and payout ratios. They estimated the following two models:

$$Payout(t) = \alpha_0 + \alpha_1 CG - Score(t-1) + \alpha_2 Payout(t-1) + control\ variables \quad \ldots\ldots(5)$$

$$CG - Score(t) = \beta + \beta_1 CG - Score(t-1) + \beta_2 Payout(t-1) + control\ variables \quad \ldots\ldots(6)$$

Where: payout represents dividend payout and CG means corporate governance.

Their results showed that governance caused a variation in dividend policy while dividend policy had no effect on corporate governance quality.

Further, Kumar (2004) proposed the following model:

$$Dividend\ int_{it} = \alpha_1 + \beta_1 EarningsInt_{it} + \beta_2 EarningsInt_{i(t-1)} + \beta_3 DebtEquity_{it} + \beta_4 GrowthinSalesInt_{it} + \beta_5 Foreign_{it} + \beta_6 Institutional_{it} + \beta_7 Corporate_{it} + \beta_8 Director_{it} + \beta_9 (Foreign)^2_{it} + \beta_{10} (Institutional)^2_{it} + \beta_{11} (Corporate)^2_{it} + \beta_{12} (Director)^2_{it} + \gamma DividendInt_{i(t-1)} + \mu_{it} \quad \ldots\ldots(7)$$

Where: Div. Int_{it} (dividend intensity) was defined as the ratio of dividends to total assets.

Ear Int_{it} was net earnings of firm i at time t available for distribution to shareholders.

Ear $Int_{i(t-1)}$ was previous total earnings of firm i at time t. Div $Int_{i(t-1)}$ was the previous dividend intensity of firm i at time t, it was defined as the ratio of dividend to total assets.

Kumar (2004) made ownership to be a key governance mechanism that influenced dividend payout. He classified ownership into different classes of owners at different levels. He obtained the firm level panel data from the corporate database (PROWESS).

The data (1994-2000) consisted of all manufacturing firms listed on the Bombay Stock Exchange. In addition, he employed fixed effects panel regression to control for unobserved firm heterogeneity.

However, Sawicki (2009) compared the La Porta, Lopez-de-Silanes, Shleifer and Vishny (1999 and 2000) outcome and substitution hypotheses in explaining the relationship between dividend payouts and governance. He tested these hypotheses with the following model:

$$DIV_{i,t} = \alpha_0 + \alpha_1(Gov_{i,t}) + \alpha_2(\text{Pr}ofit_{i,t}) + \alpha_3(Beta_{i,t}) + \alpha_4(Gr_{i,t}) + \alpha_5(Sz_{i,t}) + \alpha_6(Per_{i,t}) + \sum \beta_c Ctrc + \sum \beta_s Ind_s \quad (8)$$

Where:

$Div_{i,t}$ = *dividend payout of firm i, at time t*
Gov_{it} = *index score for firm i at time t.*

$$Profit_{it} = \frac{Net\ Income_t}{(ShEquity_{t-1} + ShEquity_t)/2}$$

$$ROI\ of\ firm\ i,\ time\ t = \frac{Dividends\ (Cash)\ x100}{Net\ Income - Preferred\ Dividend}$$

$Beta_{i,t}$ *proxy for risk (operating and financial leverage) of firm i at time t*

$$Gr_{i,t}\ is\ \%\ change\ in\ assets\ of\ firm_i,\ time_t = \frac{Total\ Assets_t - Total\ Assets_{t-i}}{Total\ Assets_{t-i}}$$

$Sz_{i,t}$ = *size firm of i (logarithm of market value of common equity, USD millions, year t),*

$Per_{i,t}$ = *binary variable partitioning pre-crisis (1994-1996) and post-crisis (1999 to 2003) periods,*

Ctr = *binary variable to distinguish between countries,*

Ind = *binary variable to distinguish between industries (consumer, industrial, basic*

materials, energy, technology, utilities and financial)

Five countries were represented in Sawicki's (2009) study: Indonesia, Malaysia, Thailand, Hong Kong and Singapore. He obtained data of 20 listed firms of each country over a 10-year period (1994 to 2003); from annual reports and Thompson One Analytical Database. The investigation was conducted at the country level, comparing dividend payouts across governance systems provided by different legal regimes.

However, his study is quite different from other studies which controlled for governance differences at the firm level but used only one governance indicator. This study is far from robustness in that there are many governance indicators in literature which it neglected.

Establishing the prevalence of the outcome model prediction of dividend in emerging markets using CLSA data, O'Connor (2012) estimated OLS regressions of the following form:

$$DIV_i = \alpha + \beta_1 GOV_i + \beta_2 Size + \beta_3 \Pr ofit_i + \beta_4 Cash_i + \beta_5 SRc + Industry_i \quad (9)$$

$$DIV_i = \alpha + \beta_1 GOV_i + \beta_2 Size + \beta_3 \Pr ofit_i + \beta_4 Cash_i + \beta_5 SRc + \beta_6 CRc + \beta_7 ENFc + Indu_i + \varepsilon_i \quad (10)$$

Where DIV_i is either dividend to earnings (%), dividends to cash flow (%), or dividend to sales (%), and GOV_i is the CLSA corporate governance score for each firm. Size, growth, profitability, and cash, are firm size, firm growth, firm profitability, and firm cash holdings, respectively. $Industry_i$ is industry dummies, and SR_c, CR_c and ENF_c are

shareholder rights, creditor rights, and legal enforcement, respectively. Financial firms were excluded.

This thesis discovered there was no convergence in the previous models; some authors used models while many did not. Also, the variables in the specified models differed. Models' specifications might be due to availability of data and differences in models' specifications could also be due to replication of particular systems such as laws and country's development of capital markets. In all the papers reviewed, dividend payout was the dependent variable while governance was the explanatory variable. The key variables employed were similar in the studies under review but most of the studies excluded financial firms in their samples because they had different accounting and financial characteristics due to the specificity of their line of business and heavy regulations imposed on them by regulatory authorities.

The definitions given to dividend were similar in the different models reviewed. However, on the basis of a survey of managers' perspective about dividend payment and retention, some authors claimed dividend depended on current and expected earnings as well as pattern of past dividends. They also documented that dividend helped in signaling the future prospects of a firm and that dividends were paid even if the firm had profitable investment opportunity (Kumar, 2004). It was observed that there was differential in governance measures used in all the models, which might be due to availability of data, sample selection and type of economic system.

Moreover, sampled periods in developed markets were slightly shorter than emerging markets; however, Officer's (2007) was longer than other developed markets especially

studies that support the substitution hypothesis. Only Mitton (2004) used country level and firm-level comparison for investors' protection. In addition, Officer's sample contained all firm year observations for all US incorporated industrial (non-financial and non-utility) firms that were in the Compustat database and Centre for Research in Security Price (CRSP) Database with publicly- traded equity in the New York Stock Exchange.

In addition, there was no uniformity in the governance mechanism used by previous authors in the papers considered. Some authors used internal and external mechanisms separately while some considered both together. Divergences in the variables might also be due to the different hypotheses used. Data used in the reviewed papers were generally from annual reports, firms' websites, stock exchanges' websites and nations' database though most of the studies excluded financial firms because their payout policy was a function of industry specific factors that were not relevant when studying the payout policy of industrial firms.

3.5: Possible Endogeneity

In an econometric model, a parameter or variable is said to be endogenous when there is a correlation between the parameter or variable and the error term. Endogeneity can arise as a result of measurement error, auto-regression with autocorrelated errors, simultaneity and omitted variables. Broadly, a loop of causality between the independent and dependent variables of a model leads to endogeneity. In other words, the problem of endogeneity occurs when the independent variable is correlated with the error term in a regression model. This implies that the regression coefficient in an ordinary least square (OLS) regression is biased, however, if the correlation is not contemporaneous, then it

may still be consistent. There are many methods of overcoming this, including instrumental variable regression, Heckman selection correction and system generalized method of moments SYGMM. In general the problem of 'endogeneity' refers to anytime there is a violation of the third assumption. In other words, an empirical model for which E(u|x) σ= 0 is said to suffer from an endogeneity problem. Whenever there is endogeneity, OLS estimates of the β's will no longer be unbiased.

3.5.1: Endogeneity in Static Models

Omission of variable is a source of endogeneity in static models. In this case, the endogeneity comes from an uncontrolled variable meaning that a variable is both correlated with an independent variable and the error term in the model. Consequently, the omitted variable both affects the independent variable and separately affects the dependent variable.) Assuming that the model to be estimated is:

$$y_i = \alpha + \beta x_i + \gamma z_i + u_i$$

but z_i is omitted (perhaps because there is no measure for it) when a regression is run, z_i will get absorbed by the error term and the actually model to be estimated will be:

$$y_i = \alpha + \beta x_i + \varepsilon_i \quad \text{(Where: } \varepsilon_i = \gamma z_i + u_i\text{)}$$

If the correlation of x and z is not 0 and z separately affects y (meaning $\gamma \neq 0$), then x is correlated with the error term, ε. Here, x and 1 are not exogenous for alpha and beta since, given x and 1, the distribution of y depends not only on alpha and beta, but also on z and gamma.

Another source of endogeneity in a static model is measurement error. Suppose a perfect measure of one of our independent variables is not got. Imagine that instead of

observing x_i, $x_i = x_i^* - \nu_i$ where: ν_i is the measurement "noise" is observed. As the following univariate regression:

$$y_i = \alpha + \beta x_i + \varepsilon_i$$

is tried to be estimated, we actually end up estimating,

$$y_i = \alpha + \beta(x_i^* - \nu_i) + \varepsilon_i$$

$$y_i = \alpha + \beta x_i^* + (\varepsilon_i - \beta\nu_i)$$

$$y_i = \alpha + \beta x_i^* + u_i \quad \text{(Where: } u_i = \varepsilon_i - \beta\nu_i)$$

Since both x_i^* and u_i depend on ν_i, they are correlated. Measurement error in the dependent variable, however, does not cause endogeneity (though it does increase the variance of the error term). In sum, when the measurement error is in the independent variable, the problem of endogeneity arises.

3.5.2: Endogeneity in Dynamic Models

Simultaneity is the major cause of endogeneity in a dynamic model. It arises when one or more of the independent variables, Xjs, is jointly determined with the dependent variable, Y, typically through an equilibrium mechanism. The classic meaning of endogeneity refers to the simultaneity problem; where the flow of causality is not purely from the right hand side (RHS) variables to the left hand side (LHS) variable. In other words, if changes in the LHS variable cause changes in the RHS variable or that the LHS variable and the RHS variable are being jointly determined, then there is simultaneity and it is expected that the error term will be correlated with the RHS variables. To correct for endogeneity in a dynamic model, system GMM is often employed.

3.6: Empirical Review

The review in this section is grouped into three:

a. The relationship between Corporate Governance Indicators and Dividend Payouts.

b. The relationship between Corporate Governance and Dividend Payouts based on firm size.

c. The relationship between Corporate Governance and Dividend Payouts based on sectoral classification.

3.6.1: The Relationship between Corporate Governance Indicators and Dividend Payouts

Corporate governance indicators refer to a set of mechanisms that influence the decisions made by managers when there is a separation of ownership and control (Larcker, Richardson and Tuna, 2007). Some of these monitoring mechanisms that measure corporate governance are: board size, directors' shareholding, institutional shareholders, foreign investors, number of independent directors, leverage, ownership concentration and operations of the market for corporate control.

3.6.1.1: Institutional Ownership and Dividend Payouts

Institutional investors are large investors such as insurance firms, banks, pension funds, financial institutions, investment firms and other nominee firms. (Koh, 2003). Following Short *et al* (2002), Karathanassis and Chrysanthopoulou (2005), institutional ownership is defined as the percentage of shares held by governments, foreign and domestic institutional investors in a firm at a particular point of time. The presence of institutional investors may lead firms to change their behavior basically because their influence on investees/corporations can affect their policies due to their substantial shareholdings. Institutional investors, with more available resources and knowledge, do not only monitor

but sometimes influence corporate information which individual investors cannot (Michaely and Shaw, 1994). Agrawal and Mandelker (1990) point out that institutional investors offer important monitoring services and operate as a self control to opportunistic behavior of managers and consequently help in reducing agency cost. Eckbo and Verma (1994) show that institutional investors prefer free cash flow to be distributed in form of dividends. The agency perspective therefore hypothesises a positive relationship between institutional ownership and dividend as institutions demand dividends in order to reduce the agency costs of free cash flow (Short *et al.*, 2002).

In a related issue, Shleifer and Vishny (1986) in their analysis on USA, opine that institutional ownership creates the incentives to monitor management, which overcomes the free-rider problem. Claessens and Lang (2000) show that institutional ownership contributes to financial discipline and therefore fewer resources consumed in low return projects and more cash flows can be distributed as dividends. Also, Mitton (2004) shows that firms with higher institutional ownership pay higher dividends in London. Wiberg (2008) investigated the relationship between institutional ownership and dividend policy among 189 Swedish companies. His results show that institutional ownership and dividend payments are positively related. Short *et al.* (2002) used four models to examine the relationship; it was evident that a significant positive relationship existed between these two variables in all the four models. Li and Huang (2007) examined the relationship between institutional ownership and cash dividend for 364 manufacturing listed companies of China over the period of 2001-2003. The results show a significant positive impact of institutional ownership on the payout of cash dividend. In addition, Ahmed and Javid (2010) analysed the relationship between firm's ownership structure and dividend payouts of the sample of 50 Karachan Stock Exchange -100 index non financial firms

over the period of 2001-2006. The findings describe a positive and highly significant relationship between the corporate investor ownership and dividend growth in Pakistan.

By using a sample of U.S firms, Bichara (2008) conducted a study to examine a theory that links dividends to institutional ownership in a framework of both information signaling and agency costs. He finds that institutions are considered sophisticated investors with superior ability and stronger incentive to be informed about the firm quality compared to retail investors. Institutional investors display monitoring capabilities and can detect and correct managerial pitfalls, thus their presence serves as an assurance that the firm will remain well run. Also, El-Masry *et al.*, (2008) provide additional evidence in Turkey on significant relationship between institutional ownership and dividend policy. They submit that institutional block holders voted for higher payout ratios to enhance managerial monitoring by external capital markets.

Renneboog and Szilagyi (2006) observe in the Netherlands that those companies with influential shareholders like institutional investors; paid more dividends as Renneboog and Szilagyi (2008) report that firms with strong shareholders appeared to force their managers to pay more dividends in Dutch firms. Shleifer and Vishny (1997) and Allen, Bernardo and Welch (2003) document a positive and significant relationship between institutional shareholders (a governance mechanism) and dividend payout. They note that investors preferred to own shares in firms which pay regular dividends and argue that large institutional investors were more willing and able to monitor corporate management than smaller and diffused owners.

A significant relationship was found between dividend payout and ownership structure in Tehran stock exchange from 2000 and 2007. Using an Iran panel data, Mehrani, Moradi and Eshandar (2011) documented a positive association between institutional ownership and dividend payout. It showed that the presence of institutional investors results in high dividend payment. Also, in all the four models that they used, positive relationship was found between dividend payout and concentrated institutional ownership. The study suggested that firms were forced to distribute more dividends for decreasing the agency costs when big institutional investors existed in ownership structure.

However, Zeckhauser and Pound (1990) suggest that dividends and institutional shareholders may be viewed as alternative signaling devices. The presence of institutional shareholders may mitigate the use of dividend as a signal of good performance, as they can act as a credible signal. Their submission predicts a negative relationship between dividend and institutional shareholders. Jensen *et al.* (1992) find the evidence of a negative relationship between institutional ownership and dividend payments in United Kingdom. Kouki and Guizani (2009) analysed this relation among Tunisian companies. They used five linear regression models and concluded that institutional ownership is negatively associated with dividend. In addition, Gugler and Yurtoglu (2003) show that firms with high institutional ownership tend to pay lower dividends. Also, Maury and Pajuste (2002) find a significant negative relationship between institutional ownership and dividend payments among Finland companies. Therefore, the relationship hypothesised that:

H_1: There is a significant relationship between the institutional ownership and dividend payouts.

3.6.1.2: Managerial ownership and dividend payouts

Following Harada and Nguyen (2009), Short *et al* (2002), and Karathanassis and Chrysanthopoulou (2005), managerial ownership refers to the total percentage of equity held by the shareholders that take part in the company's management, either through their natural presence or representation in the Board of directors or the undertaking of managerial tasks or a combination of the two. The link between managerial ownership and dividend payouts has been well documented (Wiberg, 2008).

Jensen's (1986) investigation on UK's firms opines that the free cash flow theory suggests that managers are reluctant to pay out dividends, but prefer to retain resources under their control. The evidence shows that dividend decreases as the voting power of owner-managers increased and is almost zero when owner-managers have absolute control. Chen *et al.* (2005) also find a negative relationship between managerial ownership and dividend policy in Hong Kong. Jensen *et al.,* (1992) show that insider ownership is associated with significantly lower dividend payout among US firms. Their results also support Rozeff's (1982) proposition that benefits of dividends in the firms with higher insider ownership have smaller effect reducing agency cost.

In addition, some researchers have suggested dividend payment acts as an apparatus to control the management compass as inside ownership provides direct opportunity to use internal funds on unprofitable projects. This approach anticipates negative relationship between insider ownership and dividend payout (Rozeff, 1982; Moh'd, Perry and Rimbey, 1995; Short, Zhang and Keasey, 2002). Al-Malkawi (2007) examined the determinants of corporate dividend policy in the emerging market of Jordan by using a firm level panel data of publicly traded 160 firms on the Amman Stock Exchange

between 1989 and 2000. The results show a significant negative relationship between insiders' ownership and dividend. As a result, it is hypothesised that:

H_2: There is a significant relationship between managerial ownership and dividend payouts.

3.6.1.3: Board composition/ size and dividend payouts

The board is considered to be an important part of a firm's governance mechanism. It is the apex court of appeal for resolving various issues, including the agency problem. It acts as a monitor, a counsel, an advisor and maintains discipline in the firm. It is not there to entertain debates and arguments on any disagreement. The board of directors forms the center of decision making and control system in a firm, and thus, their role in the corporate governance of companies is pivotal. It is believed that the decision of the board is supreme (Fama and Jensen, 1983).

The board consists of executive directors, who are members of the management team and non-executive directors who are outsiders and who may or may not be independent. Higgs (2003) in his study of UK lays stress on the clear understanding of the difference between an "outside director" and an "independent director", since many times they are used interchangeably. Higgs argues that an outside director is a non-executive director on the board whereas an independent director is an outside director with no "material" relationship with the firm, except for the board directorship.

Gill and Obradovich (2012) in their research on the effect of corporate governance, institutional ownership and the decision to pay dividends used a statistical sample of 296 U.S. companies listed in the New York Stock Exchange during 2009-2011. The findings show that there is a positive and significant relationship between board size and dividend

policy. Bokpin (2011) investigated the effect of ownership structure, corporate governance on dividend performance in Ghana with a sample of 23 companies during the time span 2002-2007. The results show that there is significant and positive relationship between board size and dividend.

In contrast, Subramaniam and Susela (2011) tested the effect of corporate governance on dividend policy over 300 listed companies in the Malaysian Stock Exchange. Thus, the results indicate that there is negative and significant relationship between board size and composition of the board with dividend policy. This observation shows that the Board independence and dividend policy serve as substitutes in the monitoring of agency problem. Atmaja's (2009) study of Indonesia find that ownership concentration has a significant negative impact on the independence of board, which means that closely held firms have lower proportion of independent directors on the board, and the block holders may exacerbate the agency problems by paying lower dividends.

Their findings are in sharp contrast to previous studies in Malaysia (Zubaidah, Abidin and Kamaru, 2009; Cheng, Evans and Nagarajan 2008; Jackling and John, 2009). The study was based on the top 300 highest capitalised Malaysian public listed companies, meaning the validation of the conclusion might be applicable to large firms only. In addition, the corporate governance data for three years used for the study might not be generalised for other periods such as prior to governance reforms in Malaysia. Also, there was a strong element of sample bias as only firms reporting details on all the corporate variables that interested the authors were included in the analysis.

Knyazeva (2007) findings show that corporate governance has stronger effects on dynamic dividend behavior of US unregulated firms. According to him, the effects are due to board and blockholders' monitoring and separation of ownership from control. He reports that weak corporate governance is consistent with the sustainability, strong commitment features and credibility of the implicit dividend promise. His result indicates that payment adjustments appear to preserve the divided commitment, subjecting the managers to an implicit obligation to shareholders with a pre-specified timeline and level of cash payouts of unregulated firms in U.S (1993-2004).

As a result of the above, it is hypothesised that:

H_3: There is a significant relationship between board size and dividend payouts.

3.6.1.4: Foreign ownership and dividend payouts

In Al-Nawaiseh *et al.* (2013), "dividend policy and ownership structure: an applied study on industrial companies in Amman Stock Exchange", Tobit model or censored regression was used to test the relationship between ownership structure and the level of dividend. The study sample consisted of sixty two industrial firms listed in ASE from (2000-2006). Its results show that the relationship between foreign ownership and dividend is insignificantly positive. Warred *et al* (2012) submission on the effect of ownership structures on dividend payout policy in Jordan indicates a positive relationship between foreign ownership and dividend payout policy.

Jeon, Lee, and Moffett (2011) examine the relationship between foreign ownership and the decisions on payout policy in the Korean stock market. The evidence indicates that foreign investors show a preference for firms that pay high dividends. The results are driven by the fact that most of the foreign investors in the Korean market are institutional

investors and thus have both dividend clienteles and monitoring incentives. Thus, it is hypothesised that:

H_4: There is a significant relationship between foreign ownership and dividend payouts.

3.6.1.5: Leverage and dividend payouts

The financial leverage is measured as the ratio of the book value of long term debt divided by the book value of total assets. High levered firms face a risk of bankruptcy if they fail to fulfill the commitments of fixed financial charges of debt that is why they prefer to maintain cash flow rather than distributing it in the form of dividend in South Africa (Afzal and Sehrish, 2009). According to Jensen and Meckling (1976), Jensen (1986) and Stulz (1988), financial leverage has an important role in monitoring managers thus reducing agency costs arising from the shareholder-manager conflict. Mookerjee (1992) noted that dividend declaration is considered so important that some firms are forced by law to pay dividends; even though, through external finances. Nakamura and Nakamura (1985) observed that the Indian firms have the practice of paying dividend by borrowing from banks, at subsidised rate, than from their own profit. Further, Emamalizadeh, Ahmadi and Pouyamanesh (2013) posit that leverage also influences the dividend behavior of companies, provided the level of the leverage is high, which means that investment in the firms is comparatively riskier in the manners of cash flow.

In 2012, Taleb presents the "measurement of impact agency cost level of firms' leverage on dividends (60 listed companies on Amman stock exchange are selected between 2007 and 2011). The main focus of the paper is to establish the effect of leverage on dividends. The regression model estimated indicates that leverage has a positive impact on dividend. Arshad, Akram, Amjad and Usman (2013) empirical findings in India also show that the

firms' leverage reveals a positive affiliation with dividend decision payment variable, but it is statistically insignificant with dividend decision.

The negative impact of leverage upon the dividend payment is documented by Higgins (1972) and McCabe (1979) who find that companies with higher leverage normally pay lower dividend to avoid the high cost of raising external capital for their companies. The negative association of dividend and leverage was also supported by Rozeff (1982). In his study in USA, he hypothesised that if a firm has higher operating and financial leverage, other things being equal, the firm would choose a lower dividend payout to lower its costs of external financing. His findings were based on the hypothesis that dividend payout was a significantly negative function of a firm's past and expected future growth rate of sales; and a significantly negative function of its beta coefficient also influenced financial leverage.

The results of Afzal and Sehrish (2009) in South Africa show a negative, but insignificant relationship between leverage and payout ratio. This is in consonance with the submission of Mehar (2005) who opines that there is no well established market for public debt in Pakistan because socio-political factors give importance to sanction a loan. In other words, loans are granted for political reasons. Thus, debt is not considered as having a significant impact on the dividend payout ratio in Pakistan.

Thus, it is assumed that:

H_5: There is a significant relationship between leverage and dividend payout.

3.6.1.6: Ownership concentration and dividend payouts

Rozeff (1982), Easterbrook (1984) and Jensen (1986), opine that dividend payments reduce agency costs by removing excess cash under management control. Based on the above, large shareholders are in better position to impose and benefit from this mechanism and ownership concentration was expected to be associated with higher payout (Shleifer and Vishny, 1986). The monitoring hypothesis assumes that ownership concentration contributes to align management decisions with shareholder interests. Consequently, the reduction in managerial opportunism is expected to be associated with higher payout (Jensen, 1986; Shleifer and Vishny, 1986; La Porta *et al.,* 2000). The alternative hypothesis is that ownership concentration facilitates the rent extraction by dominant shareholders whose preferences are consequently in favor of a lower payout (Shleifer and Vishny, 1997; Faccio *et al.*, 2001; Gugler and Yurtoglu, 2003).

The alternative hypothesis articulated by Shleifer and Vishny (1997) and investigated by Faccio et al. (2001) and Gugler and Yutoglu (2003) is that large shareholders prefer to extract private benefits of control rather than receive dividends that equally benefit all shareholders. Hence, their preference was anticipated to be in favor of lower payout rates. Faccio *et al.* (2001) show the importance of agency conflicts between majority and minority shareholders by comparing dividend payouts in Europe and East Asia. They concluded that since large shareholders can extract private benefits from the cash flows and assets under their control, their preferences are in favour of lower dividends. A study on UK argue that ownership concentration provides the conditions for large shareholders to monitor the firm's management, thus overcoming the free-rider problem associated with dispersed ownership where no single shareholder has enough incentives to incur monitoring costs for the benefit of all shareholders. Due to the active monitoring of large

shareholders, corporate decisions are better aligned with shareholders interest; which should result in higher firm values, hence, higher dividend (Shleifer and Vishny (1986)).

Claessens and Lang (2000) prove that ownership concentration contributes to greater firm value since greater monitoring by large shareholders ensures that fewer corporate resources are wasted in poor-quality projects; the implication is that more cash flows can be paid out as dividends. The closer alignment with shareholders' interest also explains why good governed firms pay higher dividends, which gives shareholders the option to either cash out or increase their investment by purchasing more shares. By contrast, poorly governed firms tend to retain their cash and return little to shareholders, unless constrained by their legal environment. However, large shareholders are more likely to obtain satisfaction given their greater leverage and incentive to reduce their monitoring effort. Ramli (2010) investigates the effect of large shareholders on dividend policy of Malaysian companies using panel data from 2002 to 2006. The result shows that companies pay higher dividend payout as the shareholding of the largest shareholder increases. The magnitude of dividend payout is also larger when there is a presence of the substantial second largest shareholder in the company. The above arguments suggest that:

H_{6a}: Ownership concentration is associated with higher dividend payments.

Shleifer and Vishny (1997) argue that large shareholders prefer to extract private benefits of control that are not shared by minority shareholders. As a matter of fact, Johnson et al. (2000) describe several instances where controlling shareholders have expropriated minority shareholders of profitable business opportunities. Claessens and Djankov (1999) explain the decline in firm value at high levels of ownership concentration by the risk of expropriation by controlling shareholders. Faccio *et al.* (2001) emphasise that, in East

Asian corporations, the main agency problem is the expropriation of outside investors by the controlling shareholders.

Gugler and Yurtoglu (2003) show that the lower dividend payout of majority-controlled firms in Germany is related to the probability that controlling shareholders extract private benefits at the expense of minority shareholders. Indeed, they find that announcements of increases in dividend payments are associated with significant positive abnormal returns for firms where rent extraction is most likely given the divergence between cash flow rights and control rights. In addition, Maury and Pajuste (2002) document a similar negative association between ownership concentration and dividend payments in Finland. Evidence in support of the mitigating role of a second large shareholder is also found.

Harada and Nguyen (2011) results contradict the hypothesis that dividend policy is used to enhance financial discipline and could therefore be used as a substitute for shareholders' monitoring in their study of Japan. They submit that firms with concentrated ownership, which are supposed to be closely monitored, distribute less cash. The submission is consistent with the rent extraction hypothesis of Shleifer and Vishny (1997); that dominant shareholders prefer private benefits rather than dividends that they must share with minority shareholders. The results are also consistent with those of Gugler and Yurtoglu (2003) which reveal that majority-controlled firms in Germany pay lower dividends. In addition, Mancinelli and Ozkan (2006) investigated the relationship between dividend policy and ownership structure using a sample of 139 listed Italian companies. The results of the empirical analysis reveal that firms pay lower dividend as the voting rights of the largest shareholder increases. In line with the above arguments, the alternative hypothesis is formulated:

H_{6b}: Ownership concentration is associated with lower dividend payments.

3.6.1.7: Effect of audit committee on dividend payouts

Audit committees is a key institution in the context of corporate governance because it helps Boards of directors fulfill its financial and fiduciary responsibilities to shareholders. Through it, the board of directors establishes a direct line of communication between themselves, internal and external auditors; and the chief financial officer. Such an organisational structure and reporting responsibility in an environment of free and unrestricted access enables the full board of directors to achieve their goals and policies (Bean, 1999 and Abbot *et al*, 2004). In 2002, the Sarbanes-Oxley Act increased audit committees' responsibilities and authority, and raised membership requirements and committee composition to include more independent directors.

Based on Annemarie *et al*, (2004) study in USA, it was demonstrated that dividends mitigate agency concerns between investors; and management; and auditors mitigate agency conflicts by reducing information asymmetry between insiders and investors. They propose two competing theories to predict the association between auditor monitoring and dividend payouts: the outcome and substitution hypotheses. The outcome hypothesis predicts that stronger auditor monitoring is associated with higher dividend payouts, while the substitution theory predicts a negative association. Their results indicate a negative association between auditor monitoring and dividend payouts. These results support the substitution hypothesis of dividend payouts and suggest that investors view stronger auditor monitoring as an alternative governance mechanism to dividend payouts in reducing agency conflicts between managers and shareholders.

In order to examine the audit committee's effectiveness, Nimer, Badran, Warrad and Khuraisat (2012) designed a questionnaire survey and distributed it to the research sample. The sample is constructed from all the listed Jordanian companies in Amman Stock Exchange (ASE). Multiple regression analysis was employed to examine the effect of audit committees' effectiveness domains on dividend payout policies in the Jordanian firms. The results indicate that none of the audit committees' effectiveness domains show significant effect on dividend payout policies in Jordan. The results are attributed to the lack of independence of audit committees' members, as this factor was ranked as least among audit committees' effectiveness domains and other domains were ranked around the means; which indicated that Jordanian firms focus on the organisation and procedures of their audit committees ignoring the substance of these committees which is the independence of their members to practice their work efficiently. Thus, it is hypothesised that:

H7: There is a relationship between audit committee independence and firm's dividend payouts.

3.6.1.8: Legal protection and dividend payouts

La Porta *et al* (1999) examined more than 4000 companies from 33 countries around the world, including some emerging markets and provided empirical support for the agency costs hypothesis. First, the researchers divided the countries into two categories: countries that provide better legal protection for minority shareholders, and countries where shareholders had poor legal protection. Next, they analysed the effect of investor protection on dividend payout and tested two alternative agency models: the "outcome" model and the "substitute" model. The first model implies that in countries with effective legal protection system, shareholders have great rights and can force managers to disgorge cash. As a result, dividends are an outcome of the legal protection of

shareholders. They hypothesised that the more effective the legal protection the greater the rights of shareholders, and subsequently more dividends are paid, other things being equal.

Their results also show that in countries where shareholders had protection, firms pay more dividends. Moreover, they found that firms operating in these countries and having a rapid growth rate paid fewer dividends than their counterparts with slow growth rates. This implies that shareholders use their legal power to force managers to disgorge cash when investment opportunities are low. In fact, their research suggests that dividends could be used to reduce the conflict between insiders and outsiders or shareholders. They conclude, "Our data suggest that the agency approach is highly relevant to an understanding of corporate dividend policies around the world."

Sawicki (2009) observed evidence of a positive relationship between governance and payout in Southeast Asia post-crisis. This is consistent with the hypothesis that supports dividend as an outcome of good governance. The post-crisis dividend suggested that improvements in shareholder's protection empowered minority shareholders with the ability to extract cash from corporate insiders. He also observes that country-level governance is significantly related to payout, illustrating the importance of legal regime where countries that practice common law with better protection of investor rights is associated with higher dividends.

In an emerging market study, Mitton (2004) used Credit Lyonnais Securities Asia (CLSA) 2001 Corporate Governance Ratings for firms from 19 emerging markets to study the impact of firm-level corporate governance on dividend pay-outs. His result

shows that the firms with higher corporate governance ratings have higher dividend payouts. It also shows that firm- level governance, in addition to country-level investor protection, is associated with higher dividend payouts, suggesting that governance mechanisms helped reduce agency problems The results suggest that when shareholders are well protected either by governments or by corporations; capital could be allocated more efficiently.

Adjaoud and Ben-Amar, (2010) investigated the relationship between corporate governance and dividend policy of large Canadian firms over the period 2002-2005. They observe that corporate governance is positively associated with dividend payments. Their results imply that when shareholders rights are well protected, they could use their power to pressurise managers to pay higher dividends instead of spending the excess cash flows for their private benefits. Also, Kowalewski *et al* (2007) results suggest a positive and significant association between dividend payouts and corporate governance practices in Poland (a transition economy). The results indicate that firms paid higher dividends if shareholder rights were better protected.

H_8: There is a relationship between legal protection and firms' dividend payouts.

Different results are discernible from past empirical researches on the relationship between CG and DPs. There is no consensus on the findings of past authors, while some found a negative relationship between CG and DPs; others reported positive association. Financial literature suggests that CG is related to DPs but the degree of the relationship differs due to various factors in various countries. Notably, there is no consensus in literature as to the relationship between corporate governance and dividend payouts. Some studies looked only at one aspect of governance mechanism while others corrected for such shortcoming by using the aggregate governance score which covers several

aspects of the governance practices. Studies on this issue had reported conflicting results due to a number of reasons, including measurement of variables, sample periods and estimating techniques (Xu and Laurnace, 2006 and Claessens and Klingebiel, 2000).

The differences in the studies could also be linked to the level of development of the capital markets of the concerned economies. Also, differences in the legal environments post as another factor. For instance, the legal environments in the United States and United Kingdom supported high overall standards of investors' protection, so firms with better governance tend to avoid the costs associated with dividends in an attempt to achieve a more efficient investment policy (John and Knyazeva, 2006). La Porta *et. al* (2000) posit that firms in countries with strong legal systems for minority corporate outsiders pay higher dividends in comparison with countries where legal systems are weak.

Preference between dividends and stock option or stock repurchase is another cause of differential. Corporate firms in developed economies (U.S, U.K) prefer to reward their investors with stock repurchases than dividends. In contrast, emerging and transition (Poland, Asia etc) economies prefer dividends to stock repurchases because of the flexibility associated with stock repurchases, which gives managers much more discretion, thereby diminishing their effectiveness in alleviating agency conflicts. Another controversy as to the degree of association between corporate governance and dividend payout is due to the differences in firm- specific characteristics and country- specific characteristics. The existing gap in knowledge which the thesis fills is the relationship between corporate governance and dividend payout based on firms' size and mode of operations. Also, it employs an advanced econometric method, system generalised

method of moment in its analysis as the superior estimator above the ordinary least squares which previous studies neglected. In addition, it addressed the endogeneity problem that surfaced in the data which some studies could not address.

3.6.2: The Relationship between Corporate Governance and Dividend Payouts: Does firm size matter?

The size of the company is an important factor in explaining dividends. Few studies had so far investigated whether the size of firms matters for the link between corporate governance and dividend payouts. They observe that firm size plays a significant role in determining the dividend payouts of firms. Holder, Langrehr and Hexter (1998) and Bradley, Capozza and Seguin (1998), for example, observe that large firms tended to have higher payout ratios, compared to small firms, large firms had easier access to the capital markets and are, less dependent on internal funds. Fama and French (2001); Grullon and Michaely (2002) document that large firms with more assets had higher dividend payout. However, Gugler and Yurtuglu (2003) and Farinha (2003) show that dividend payouts are negatively associated with firm size.

In 2007, Al-Twaijry and Abdulrahman perform a study to identify determinants of dividend policy of 300 listed Malaysian companies for five years (2001 to 2005). The results demonstrate that the size of a firm is a very important factor that can affect the firm's dividend policy. They opine that large firms have an advantageous position in the capital markets to raise external funds and therefore are less dependent on internal funds. This suggests that the dependence on internal funding decreases as firm size increases, thus, the tendency of paying higher dividends.

Kouki and Guizani (2009) using a panel of 29 Tunisian firms between 1995 and 2001 reports that at 1% level of significance; large firms pay lower dividends than small firms. This evidence supports the argument of Barclay, Smith and Watts (1995) who posit that since large companies had more liabilities and debt holders had more confidence in them, they pay low dividend in order not to borrow more capital.

In addition, Redding (1997) argues that large firms pay large dividends to reduce agency costs. Fama and French (2001) indicate that large firms distribute a higher amount of their net profits as cash dividends, than did small firms. Lloyd, Jahera and Page (1985) were among the first to modify Rozeff's model by adding "firm size" as an additional variable. They considered it an important explanatory variable, as large companies were more likely to increase their dividend payouts to decrease agency costs. Their findings support Jensen (1986) argument, that agency costs are associated with firm size. They are of the opinion that for large firms, widely spread ownership has a greater bargaining control, which, in turn, increases agency costs.

Sawicki (2009) illustrates that dividend payouts could help to indirectly monitor the performance of managers in large firms. He opined that information asymmetry in large firms increased due to ownership dispersion, thereby decreasing the shareholders' ability to monitor the internal and external activities of the firm, resulting in inefficient control by management. Paying large dividends could be a solution for such a problem because large dividends lead to an increase in the need for external financing and this consequently leads to an increase in the monitoring of large firms, because of the existence of creditors. Larger firms have an advantage in capital markets in raising external funds, and therefore depend less on internal funds (Higgins, 1972).

Juma'h and Pacheco (2008) used a dataset consisting of 132 US manufacturing companies between 1994 and 2003. They confirm the assertion that large sized companies, on average, pay more cash dividends than small sized companies. These empirics were contradicted by Kapoor (2009) who concludes that larger companies despite having the opportunity to tap easily from the financial markets by issuing stocks or bonds prefer to retain dividends so as to avoid costly external financing; while small firms, which are more risky, paid high payout ratio, in order to attract investors to buy their stocks.

Further, the submission of Grill, Pai and Bhutani (2009) is that large firms have low likelihood of bankruptcy and, therefore, pay high dividends. This implies an inverse relationship between the size of the firm and its dependence on internal financing. Thus, large firms are expected to pay more dividends. Also, the effect of firm size on dividends is seen as a proxy for agency problems. The assumption is that, the larger the firm, the more difficult (costly) monitoring would be (i.e. the greater the agency problem). Thus, dividends could play a role in alleviating the agency problem. In addition, the positive relationship between dividend yield and size supported the generally accepted principle that large firms had easy access to capital markets (Aivazian, Booth and Cleary 2003).

Al-Twaijry and Abdulrahman (2007) investigated determinants of dividend policy in emerging market of 119 non- financial firms listed on Gulf Co-operation Council's (GCC) country stock exchanges between 1999 and 2003. Their results illustrated that firm size is a statistically significant variable of dividend payout, and that larger firms chose to pay more dividends than their smaller counterparts. Besides that, Eriotis (2005) also opined that the Greek firms set their dividend policies not only on net distributed earnings

but also by the changes in dividend and size of the firm. The empirical findings of the research suggest that size of the firms is included as a signal about the firms' dividend. Aivazian *et al.* (2003) also supports the research conducted by Eriotis, 2005; and Al-Twaijry and Abdulrahman, 2007 where a firm's size is expected to explain the firm's dividend policy. According to their studies, the large firms were more likely to be mature and thus had an easier access to capital markets and should be able to pay more dividends.

Ho (2003) conducts a comparative study of dividend policies in Australia and Japan. The results support the agency, signalling and transaction cost theories of dividend policy. The study concludes that dividend policies were affected positively by size in Australia but not in Japan. Al Malkawi (2005) studied the determinants of corporate dividend policy in Jordan between 1989 and 2000. Size of the firms was found to be the determinant factor of corporate dividend policy in Jordan. The findings provide strong support for the agency costs hypothesis and are broadly consistent with the pecking order hypothesis.

In addition, Alzomaia and Al-Khadhiri (2013) report that large firms are more likely to be mature and thus had easier access to capital markets, and should be able to pay more dividends. Their findings corroborate previous studies and indicate that, large firms could afford to pay higher dividends than the smaller ones. This relationship is supported by the transaction cost explanation of dividend policy. Mehta (2012) investigated the determinants of dividend payout for all firms in the areas of real estate, energy, construction, telecommunications, health care and industrial sectors (except bank and investment concerns) listed on the Abu Dhabi Stock exchange for a period of five years (2005 to 2009). He also concludes that the larger sized firms paid out more dividends as

compared to firms with smaller size. Thus, the hypothesis that size has positive relationship with dividend payout ratio was supported by the results of his analysis.

3.6.3: Relationship between Corporate Governance and Dividend Payouts: Does sector of operations matter?

Juma'h and Pacheco (2008) used a data set consisting of 132 US manufacturing companies between 1994 and 2003 to investigate if the relationship between governance and dividend differs in sectoral classification. Their results did not confirm that manufacturing companies on average changed their dividend trend. It disagreed with previous studies of Fama and French (2001). Also, Pandey (2001) concludes that the plantation and consumer products' industries in Kuala Lumpur Stock Exchange (KLSE) paid highest dividends as they had fewer growth opportunities and higher surplus cash.

Kapoor (2009) studied sectoral analysis of dividend payment of firms in India between 2001 and 2008. The sectoral analysis was done by taking samples of companies, which were the constituents of information technology (IT), service and non-durable goods sectors. His findings show that non-durable goods sector was very reluctant to cut dividends once they were initiated. This reluctance led to dividends that were sticky, smoothed from year to year and tied to the long run profitability of the firm. However, information technology (IT) and service sectors were characterised by high target payouts coupled with high speed of adjustment coefficient.

In an attempt to analyse empirically the determinants of dividend payout ratio of the Indian Information Technology sector, Anil and Kapoor (2008) employed the pooled data covering seven years, that is, 2000 to 2006. They observe that cash flows, corporate tax,

sales growth and market-to-book value ratio did not explain the dividend payment pattern of the information technology (IT) sector. Only liquidity and beta (year-to-year variability in earnings) were found to be noteworthy determinants.

In addition, Wahal (1996) conducted a sectoral analysis of dividend payout ratio for three years that comprised the top 500 companies listed on Bursa Malaysia exchange. The results of the analysis indicate that high-technology-related sector paid relatively lower dividend compared to other sectors. He claimed that a low dividend payout ratio is the implication of a fast growing company that needs more cash for re-investment decisions. Appannan and Sim (2011), examined the leading determinants that affected the dividend payment decision by the company management in Malaysia listed companies for food industries under the consumer products sector, on how the changes in dividend payment decision varied according to the predictors' variables. The relationship between dividend and the current dividend per share was empirically analysed through the Pearson correlation analysis and regression model. Sampled companies from year 2004 to 2008 confirmed the fact that most of the food industries/companies relied on the debt equity ratio when deciding the dividend payment ratio. The debt equity ratio was proved to be positively correlated with the current dividend per share, which affected many of the firm's decisions when setting the dividend policy.

Grill , Pai and Bhutani (2009) relaxed the assumption of perfect capital market of Miller and Modigliani (1961) to determine the payout ratios of firms in the US. It was discovered that service sector paid higher dividends than manufacturing sector due to their modes of operations. Its argument was based on the fact that the service sector is more human intensive and does not require a huge capital asset base like manufacturing

companies for its operations. The major asset of the sector is manpower, hence the funds required for recruitment and retention of manpower, is comparatively less than the funds required for purchasing capital assets. It concludes that the service firms have high liquidity and they can easily release funds for payment of dividends unlike manufacturing firms.

In Alzomaia and Al-Khadhiri (2013), a regression model with a static panel data covering between 2004 and 2010 for 105 non- financial firms listed on the floor of the Saudi Arabia stock market was run. The analysis shows that petrochemical industries and telecommunication & information technology industries were the major sectors paying high dividends among Saudi Arabian quoted sectors. The dividend decision was based on the risks involved in the operations of these sectors. After confirming the usefulness of the Barclay *et al* (1995) model, Dicken (2002) adapted the model to examine the dividend behaviour of the US banking industry. The results support his expectations that banking firms paid low dividends when more investment opportunities existed and also paid more dividends the larger the firm levels. The relationship's direction suggested the possibility that greater capital adequacy might allow banks to pay greater dividends.

In sum, it was found that there were sectoral differences in corporate dividend payout determinants. The discovery was consistent with the conclusion of Baker, Farrelly, and Edelman (1985) and Horace (2002) who posit that firm's industry type influenced dividend policy, however, a factor which might be relevant for one industry became irrelevant for another depending upon the industry characteristics.

3.7: Empirical Works on Dividend Payouts in Nigeria

Uzoaga and Alozienwa (1974) used Lintner (1956) model and simple regression; studied dividend policy of Nigerian firms during the period of the indigenisation policy (1972-1974). They claim that only little evidence supported the classical influence of dividend in Nigeria. They also conclude that "fear and resentment" influenced dividend rather than the classical forces. Inanga, Soyode and Uzoaga (1975) in their commentaries on Uzoaga and Alozienwa (1974) conclude that the change in dividend policy could be attributed to the share pricing policy of equity shares issued which made companies neglect "all the classical forces that determined dividend policy".

In re-instating Lintner's model, Oyejide (1976) empirically conducted a test on companies' dividend policies in Nigeria. He concludes that "the available evidence provided a strong and unequivocal support for the conventional devices for explaining the dividend behaviour of Nigerian limited liability business organisations". However, Odife (1977) criticised Oyejide (1976) because of its failure in adjusting stock dividend, but Uzoaga and Aloziewa (1974) conclusions were accepted by him. Odedokun (1995) unravelled the controversy surrounding the nature of the interdependence between investment financing and dividend policies of quoted non-financial firms between 1985 and 1988. His findings suggest great mutual interdependence between investment financing and dividend decisions contrary to the startling predictions of Miller and Modigliani (1961). He submits that the explanation of the mutual interdependence is the non-satisfaction of the crucial assumption of a perfect market which was absent in the Nigerian context.

In the study of Adenikinju and Ayonrinde (2001), the implication of ownership structure and control (governance) on the performance of publicly listed companies (excluding banks) in Nigeria was examined. According to them, banks were excluded because what is regarded as income in the banking sector is a liability in other sectors and vice versa. In addition to examining the capital structure of the corporate sector, the study went one step ahead to examine the structure of ownership impact on performance. The study yields a number of insights into the ownership structure of the Nigerian corporate sector. First, the vast majority of Nigerian individual investors were small shareholders and few were in the list of the ten top largest shareholders. Second, on the average, ownership structure was highly concentrated in Nigeria. The study did not find the problem of free rider in the corporate sector. Further, the findings show no significant correlation between managerial ownership and performance. In addition, industry effects and size are found to have no discernible impact on firm's performance. A key finding from this study with significant policy implication is that ownership structure is not a major determinant of a firm's performance in Nigeria.

Adelegan (2003) evaluated the incremental information content of cash flows in explaining dividend changes, given earnings in Nigeria. She carried out an 882 firms-year study by analysing the dividend changes-cash flow relationship on a sample of 63 quoted firms in Nigeria over a wider testing period from 1984 to 1997. She finds a significant relationship between dividend changes and cash flow, unlike previous studies. The empirical results reveal that the relationship between cash flows and dividend changes depend substantially on the level of growth , the capital structure choice, the size of each firm and economic policy changes.

Aregbeyen (2005) examined the determinants of firm's dividend payments in Nigeria with a sample of 60 manufacturing companies quoted on the Nigerian stock exchange between 1993 and 1999. His empirical estimates based on panel data methodology showed that ownership structure, current profits and the lagged dividends are significant explanatory variables of the firms' dividend payment. He posits that the significance of the lagged dividend suggests a trend pattern in dividend payment by the firms and that high dividend payment previously made for a higher dividend payment in the current year.

Adesola and Okwong (2009) used OLS method posit that Lintner's model and Bhattacharya's signaling theory (1979) performed well when used for the dividend policy of quoted companies in Nigeria. They observe that average earning, current dividend and earnings per share were significant determinants of average dividend payment with average earnings being the most significant, thus supporting Nyong (1990) and Adesola (2004) earlier results. They also confirm the insignificance of growth prospect and firm size on the dividend behaviour of corporate firms. According to Musa (2009), five independent variables (current earnings, previous dividend, cash flow, investment and net current assets) were used to show the aggregate impact of the dividend policy of firms in Nigeria. He used 53 quoted firms between 1993 and 2002 and found out that current earnings, previous dividends and cash flow had a significant positive effect on the dividend policy of all the quoted companies, while no statistical evidence of a relationship between investment and the dependent variable was found. His study underscores the need for the Board of directors to control a continuous but gradual increase in earnings, cash flow and dividend payment.

Nwidobie (2011) used surveys to evaluate the level of satisfaction derived by shareholders of quoted firms in Nigeria. His findings show that dividend payouts of quoted firms in Nigeria were 15% of dividend expectations of Nigerian shareholders; that there exists low level of contentment of shareholders from the current payouts of quoted firms. According to him, the determinants of dividend payouts of the sampled firms did not incorporate socioeconomic and behavioural influences affecting shareholders. He suggests that dividend payout models of quoted firms in Nigeria need to incorporate socio-economic and behavioural factors affecting shareholders; dividend payouts of these firms should be optimised at the point where the marginal savings of agency costs of equity and additional unit of dividend equaled the marginal increase in the agency cost of raising finance by debt.

Nwidobie (2012) extended Nwidobie (2011) study and concluded that about 12% of information to investors was passed through dividend payments. He opines that quoted firms in Nigeria should be careful in using dividend as a communication tool, because a downward, upward or stable movement in dividend payment in Naira value could be interpreted wrongly by investors. He posits that dividend payment decisions needed adequate planning and timing because it could influence investors negatively or positively.

Table 21: Summary of Empirical Review

Author(s)	Title	Country(ies)	Theory and variables	Methodology	Results and conclusion
La Porta, Lopez-de-silanes, Shleifer and Vishny (2000)	Agency problems and dividend policies around the world.	USA	Agency theory	Ordinary least square	Their results also show that in countries where shareholders had protection, firms pay more dividends. Moreover, they found that firms operating in these countries and having a rapid growth rate paid fewer dividends than their counterparts with slow growth rates.
Sawicki (2009)	Corporate governance and Dividend policy in South-East Asian Pre-Post Crisis.	South-East Asian countries	Agency theory	Panel data	He also observed that country-level governance is significantly related to payout, illustrating the importance of legal regime where common law countries better protection of investor rights is associated with higher dividends
Pan (2007)	Why are firms with entrenched managers more likely to pay dividends?	USA	Agency theory	Ordinary least square	He observed that entrenched managers were not less likely to pay dividend.
Kouki and Guizani (2009)	Ownership structure and dividend policy	Tunisian	Agency theory	Ordinary least square	They concluded that there existed significant positive relationship between dividend payout and ownership structure

Gugler (2001)	Corporate governance and economic performance	London	Outcome Hypothesis hypothesis	Ordinary least square	He established that the ownership structure of firms is a significant determinant of dividend policy in state-owned firms.
Renneboog and Szilagyi (2006)	How relevant is dividend policy under low shareholders' protection?	UK	Agency theory	Ordinary least square	They reported that firms with strong shareholders appeared to force their managers to pay higher dividends.
Saxena (1999)	Determinants of dividend payout policy	Georgia	Cost hypothesis	Ordinary least square	The reported that agency cost was a key determinant of the firms' dividend policy
Sawicki (2005)	Corporate governance and dividend policy	Asia	Agency theory	Ordinary least square	He documented that better governed firms paid higher dividends and better governance reduced expropriation by insiders
Knyazeva (2007)	Delivering on the dividend promise: corporate governance, managerial incentives and dynamic dividend behavior	USA	Agency theory	Ordinary least square	He reported that weak corporate governance is consistent with the sustainability, strong commitment features and credibility of the implicit dividend promise.
Farinha (2003)	Divided policy, corporate governance and the managerial entrenchment hypothesis	Asia	---	Ordinary least square	The result showed that dividend payouts are negatively associated with firm size

Redding (1997)	Firm size and dividend payouts	USA	Agency theory	Ordinary least square	The argued that large firms paid higher dividends to reduce agency costs.
Anil and Kapoor (2009)	Determinants of dividend payout ratios	India	---	Ordinary least square	They concluded that larger companies despite having the opportunity to tap easily from the financial markets by issuing stocks or bonds prefer to retain dividends so as to avoid costly external financing; while small firms, which are more risky, paid high payout ratio, in order to attract investors to buy their stocks.
Eriotis (2005)	The effect of distribution earnings and size of the firm to its dividend policy.	USA	Signalling hypothesis	Ordinary least square	The empirical findings of the research suggested that size of the firms is included as a signal about the firms' dividend.
Mehta (2012)	An empirical analysis of determinants of dividend policy	UK	---	Ordinary least square	He concluded that the larger size firms paid out more dividends as compared to firms with smaller size. Thus, the hypothesis that size has positive relationship with dividend payout ratio was supported by the results of his analysis.

Pandey (2001)	Corporate dividend policy and behavior: The Malaysian evidence	Malaysia	Agency theory	Ordinary least square	He concluded that the plantation and consumer products industries paid highest dividends as they had fewer growth opportunities and higher surplus cash.
Wahal (1996)	Pension fund activism and firm performance.	Malaysia	--	Ordinary least square	The results of the analysis indicated that high-technology-related sector paid relatively lower dividend compared to other sectors. He claimed that a low dividend payout ratio is the implication of a fast growing company that needed more cash for re-investment decisions
Adelegan (2003)	An empirical analysis of the relationship between dividend changes and cash flow	Nigeria	Free Cash flow hypothesis	Ordinary least square	The empirical results revealed that the relationship between cash flows and dividend changes depended substantially on the level of growth, the capital structure choice, the size of each firm and economic policy changes.

Musa (2009)	The dividend policy of firms quoted on the Nigerian stock exchange	Nigeria	Lintner Hypothesis	Ordinary least square	He found out that current earnings, previous dividends and cash flow had significant positive effect on the dividend policy of all the quoted companies, while no statistical evidence of a relationship between investment and the dependent variable was found.
Agrawal and Mandelker (1990)	Large shareholders and the monitoring of Managers: The case of anti- takeover charter amendments.	Germany	Agency theory	Ordinary least square	They pointed out that institutional investors offered important monitoring services and operated as a self-control to opportunistic behaviour of managers and therefore, helped in reducing agency cost
Eckbo and Verma (1994).	Managerial share ownership, voting power and cash dividend policy	Germany	Free Cash flow hypothesis	Ordinary least square	Showed that institutional investors preferred free cash flow to be distributed in form of dividends.
Short, Zhang and Keasey (2002).	The link between dividend policy and institutional ownership.	UK	Free cash flow hypothesis	Ordinary least square	The opined a positive relation between institutional ownership and dividend as institutions demand dividends in order to reduce the agency costs of free cash flow

Shleifer and Vishny (1986)	A survey of corporate governance	USA	Agency theory	Ordinary least square	They opined that institutional ownership created the incentives to monitor management, which overcome the free-rider problem
Claessens and Lang (2000).	The separation of ownership and control in East Asian corporations	Asia	Agency theory	Ordinary least square	They submitted that institutional ownership contributed to financial discipline and therefore fewer resources were consumed in low return projects and more cash flows distributed as dividends.
Mitton (2005)	Corporate governance and dividend policy in emerging markets.	London	Agency theory	Ordinary least square	They opined that firms with higher institutional ownership paid higher dividends.
Wiberg (2008)	Institutional ownership –the anonymous capital (corporate governance and Investment performance).	Sweden	Agency theory	Ordinary least square	Investigated the relationship between institutional ownership and dividend policy among 189 Swedish companies. Empirical results showed that institutional ownership and dividend payments were positively related
Li and Huang (2007)	Influence of institutional ownership on cash dividend policy of China listed companies.	China	Agency theory	Ordinary least square	The results showed a significant positive impact of institutional ownership on cash dividend payout.

Ahmed and Javid (2010)	Ownership structure and dividend payout policy in Pakistan.	Pakistan	Agency theory	Ordinary least square	The findings described a positive and highly significant relationship between the corporate investor ownership and dividend growth.
Bichara (2008)	Institutional ownership and dividend policy: a framework based on tax clientele, information signaling and agency costs	Texas	Agency theory	Ordinary least square	He found that institutions are considered sophisticated investors with superior ability and stronger incentive to be informed about the firm quality compared to retail investors.
El-Masry (2008)	Board composition, ownership structure and dividend policies in an emerging market: Further evidence from CASE.	Tukey	Agency theory	Ordinary least square	Their investigation in Turkey provided additional evidence on significant relationship between institutional ownership and dividend policy.

Zeckhauser and Pound (1990)	Are large shareholders effective monitors? An investigation of share ownership and corporate performance in asymmetric information	Chicago	Signalling Hypothesis	Ordinary least square	This hypothesis they used predicted a negative relation between dividend and institutional shareholders. They suggested that dividends and institutional shareholders might be viewed as alternative signaling devices in Chicago..
Jensen, Solberg and Zorn (1992)	Simultaneous determination of insider ownership, debt and dividend policies.	UK	Agency theory	Ordinary least square	Their analysis found the evidence of a negative relationship between institutional ownership and dividend payments.
Jain (2007)		Belgium	Agency theory	Ordinary least square	The study showed that individual investors preferred dividend paying firms, whereas institutional investors typically preferred non-paying ones.
Barclay (2006)	The determinants of corporate leverage and dividend policies.	Belgium	Agency theory	Ordinary least square	He argued that institutional investors preferred retained cash in the company to dividend distribution.
Kouki and Guizani (2009)	Ownership structure and dividend policy: Evidence from the Tunisian stock market	Tunisia	Agency theory	Ordinary least square	They concluded that institutional ownership was negatively associated with dividend.
Gugler and Yutoglu (2003)	Corporate governance and dividend payout policy in Germany.	Germany	Agency theory	Ordinary least square	Regression results showed that firms with high institutional ownership tended

					to pay lower dividends.
Jensen (1986)	The costs of free cash flow, corporate finance and takeovers.	UK	Free cash flow hypothesis	Ordinary least square	The investigation suggested that managers were reluctant to pay out dividends, but preferred to retain resources under their control. The evidence showed that dividend decreased as the voting power of owner-managers increased and was almost zero when owner-managers have absolute control.
Chen, Huang and Cheng (2009)	Disclosure, corporate governance and the cost of equity capital: evidence from Asia emerging markets	Hong-Kong	Agency theory	Ordinary least square	They found a negative relationship between managerial ownership and dividend policy in Hong Kong.
Jensen and Meckling (1992)	Simultaneous determination of insider ownership, debt and dividend policies.	USA	Agency theory	Ordinary least square	The results showed that insider ownership was associated with significantly lower dividend payout among US firms.
Farinha (2003)	Dividend policy, corporate governance and the managerial entrenchment hypothesis: An empirical analysis.	UK	Managerial entrenchment hypothesis	Panel data	They opined a negative relationship between managerial holding and dividend payouts.
Subramaniam and Susela (2010)	Corporate governance and dividend policy in Malaysia.	Malaysia	Agency theory	Panel data	Results from the study showed that dividend policy was weaker for companies

					with larger board size. Thus, the results indicate that there was negative and significant relationship between board size and composition of the board with dividend policy. This observation shows that the Board independence and dividend policy indeed are serving as substitutes in the monitoring of agency problem.
Bokpin (2011)	The effect of ownership structure, corporate governance on dividend performance in Ghana (2002-2007).	Ghana	Agency theory	Ordinary least square	The results showed that there was significant and positive relationship between board size and dividend.
Gill and Obradovich (2012)	The effect of corporate governance, institutional ownership and the decision to pay dividends		Agency theory	Ordinary least square	The findings showed that there was positive and significant relationship between board size and dividend policy.
Higgs (2003)	Committee report on review of the role and effectiveness of non-executive directors.	London	Agency theory	--	He argued that an outside director was a non-executive director on the board whereas an independent director is an outside director with no "material" relationship with the firm, except for the board directorship.

Atmaja (2009)	Governance mechanisms and firm value: The impact of ownership concentration on dividend.	Indonesia	Agency theory	Ordinary least square	Analysis showed that ownership concentration had a significant negative impact on the independence of board, implying that closely held firms had lower proportion of independent directors on the board, and the blockholders might exacerbate the agency problems by paying lower dividends.
Al-Nawaiseh (2013)	Dividend policy and ownership structure: An applied study on industrial companies in Amman Stock Exchange	Egypt	Agency theory	Ordinary least square	The results showed that the relationship between foreign ownership and dividend was positive but insignificant.
Warred (2012).	The effect of ownership structures on dividend payout policy: evidence from Jordanian context.	Jordan	Outcome hypothesis	Ordinary least square	The results of the hypothesis indicated a positive relationship between foreign ownership and dividend payout policy.
Jeon, Lee, and Moffett (2011)	The relationship between foreign ownership and the decisions on payout policy in the Korean stock market.	Korea	Agency theory	Ordinary least square	The evidence indicated that foreign investors showed a preference for firms that paid high dividends. When they had substantial shareholdings, foreign investors led firms to pay more dividends. The results were driven by the fact that most of the foreign

					investors in the Korean market are institutional investors and thus have both dividend clienteles and monitoring incentives.
Afzal and Sehrish, 2013).	Ownership structure, board composition and dividend policy in Pakistan	Pakistan	Agency theory	Ordinary least square	They found that high levered firms faced a risk of bankruptcy if they failed to fulfill the commitments of fixed financial charges of debt. Therefore, they preferred to maintain cash flow rather than distributing it in the form of dividend.
Jensen and Meckling (1976).	Theory of the firm: Managerial behaviour, agency costs and ownership structure.	London	Agency theory	Ordinary least square	They submitted that financial leverage had an important role in monitoring managers thus reducing agency costs arising from the shareholder-manager conflict.
Mookerjee (1992)	An empirical investigation of corporate dividend payout behavior in an emerging market.		Agency theory	Ordinary least square	He noted that dividend declaration was considered so important that some firms were forced by law to pay dividends, even though through external finances.
Taleb (2012).	Measurement of impact agency costs level of firms' leverage on dividend.	Egypt	Agency theory	Ordinary least square	The empirical analysis indicated that leverage had positive impact on dividend

Rozeff (1982)	Growth, beta and agency costs as determinants of dividend payout ratios.	USA	Agency theory	Ordinary least square	His findings were based on the hypothesis that dividend payout was a significantly negative function of a firm's past and expected future growth rate of sales.
Mehar (2005)	Corporate governance and dividend policy.	Pakistan	Agency theory	Ordinary least square	He opined that there was no well established market for public debt in Pakistan because socio political factors were given importance to sanction a loan; in other words, loans were granted on political reasons. Thus, debt was not considered as having a significant impact on dividend payout ratio in Pakistan.
Faccio, M., Lang, L. and Young, L. (2001)	Dividends and expropriation.	Europe/EastAsia	Agency theory	Ordinary least square	They showed the importance of agency conflicts between majority and minority shareholders by comparing dividend payouts in Europe and East Asia. The results indicated that since large shareholders could extract private benefits from the cash flows and assets under their

					control, their preferences were in favor of lower dividends.
Harada and Nguyen (2013)	Ownership concentration and dividend policy in Japan	Japan	Rent extraction hypothesis	Ordinary least square	They submitted that firms with concentrated ownership, which were supposed to be closely monitored, distributed less cash.
Adenikinju and Ayorinde (2001)	Ownership structure, corporate governance and corporate performamnce	Nigeria	Stakeholders' theory	Panel data	The findings showed no significant correlation between managerial ownership and performance. In addition, industry effects and size had no discernable impact on firms' performance.

Source: *Author's compilation from extensive literature*

3.8: Empirical Gaps in Literature

Despite the fact that the above works in Nigeria established the significance of dividend payout, research in this area is still relatively few. Also, in spite of the role of corporate governance in the efficient operations of corporate firms, none of the previous studies have been able to assess the impact of corporate governance on the dividend behaviour of listed firms in Nigeria. In addition, some of them (Adenikinju and Ayonrinde, 2001; Aregbeyan, 2005) report the determinants of dividend payment, but, failed to examine the tools that mitigate managers opportunistic behaviours against their principals. The scholarship in the thesis against the backdrop of previous studies on the dividend behaviours of firms in Nigeria is that, it reports the relationship between corporate governance and dividend payouts in Nigeria based on size dimension and sectoral classification holistically. Further, it has a wider coverage and its methodology is more advanced than those of previous studies.

Existing studies on developed countries often fail to find statistically significant effects of corporate governance on dividend payouts due to governance ratings employed, though, their governance rules are strong. Even when significant results are reported, they are often economically small (Gompers, Ishii and Metrick, 2003; Gugler and Yurtuglu, 2003; Kowalewski *et.al*, 2007; Knyazeva, 2007; Kim and Lee, 2008). In contrast, the findings of this thesis imply a substantial and positive association between dividend payouts and corporate governance practices; in Nigeria, a developing economy, which has weaker rules and wider variations among firms. The empirical results of this study demonstrate that corporate governance is an important determinant in explaining the dividend payouts of Nigerian corporate companies.

Further, a number of studies in financial literature has given due attention to the relationship between CG and DPs without regard to the link between the two due to firm size and sectoral classification singularly. The link is important because the association between CG and DPs varies quite significantly in relation to risk exposure, sectoral diversification factors, operational and financial activities all of which could affect dividend payment (Akhtar, 2006). In addition, most studies use either a single indicator for corporate governance (Sawicki, 2009), or arbitrary indices (Jiraporn and Ning, 2006; Kowalewski *et.al*, 2007; Knyazeva, 2007; Kim and Lee, 2008). The measurement errors introduced from using a single indicator would almost certainly cause the regression coefficients to be inconsistent; the use of multiple indicators, four in this thesis alleviate the measurement errors associated with a single indicator.

CHAPTER FOUR

THEORETICAL FRAMEWORK AND METHODOLOGY

4.0: Introduction

This chapter dwells on the theory, the specified/adapted model; it depicts tested hypotheses and describes the variables used with their sources.

4.1: Theoretical Framework

The agency theory of Jensen and Meckling (1976) is the theoretical foundation of the research. It is built on the premise that there is an agency relationship between principal and agent wherein the principal delegates work to the agent which involves risk sharing and conflict of interests between the two. Implicit in it is the belief that the agent is driven by self-interest rather than a desire to maximise wealth of the principal. The Board, as an intermediary, is expected to resolve such conflict of interests and minimise the agency costs. It assumes that: one, there is conflict of interests between managers and shareholders. Two, that the major conflict in the governance of firms appears to be between powerful managers and small outside shareholders; and three, conflict of interests between managers and debt holders. The agency theory, more than other financial theories highlights and attempts to solve any conflicts of interests in corporate firm/company. In addition, the significance it accords equity financing makes it most suitable for studying the subject matter in an emerging economy like Nigeria.

According to Jensen (1986), dividend policy is determined by agency costs arising from the divergence of ownership and control. Due to agency costs, managers might not

always adopt a dividend policy that is value-maximising for shareholders. They might rather choose a dividend policy that would maximise their private benefits. It is believed that corporate governance has a role to play in aligning the interest of shareholders with that of managers so that agency problem could be mitigated (Mitton, 2004; John and Knyazeva, 2006; Jiraporn and Ning, 2006).

Under the agency framework, the relationship between corporate governance and dividend payout has two major hypotheses: the outcome and substitution. The outcome hypothesis suggests dividend payout is an outcome of corporate governance. In firms associated with weak governance; managers retained more cash in the firm, making it possible for them to spend more cash for their private benefits at the expense of shareholders. Dividend payouts are then lower in these firms than in those with strong governance. Therefore, it predicts a positive relationship between dividend payouts and governance. In contrast, the substitution hypothesis contends that firms with weak governance pay more to substitute for weak governance. Investors observe that firms with weak governance might be more prone to managerial entrenchment. As a result, they demanded high dividends from firms with poor governance than from firms with strong governance; as paying dividends decreases the free cash flow, therefore reducing what is left for expropriation by opportunistic managers. Thus, the substitution model implies an inverse association between dividend payouts and corporate governance.

Despite the emergence of other theories of corporate governance, agency theory is still widely accepted in practice. Theoretically, this research dwells on the agency theory. The choice is due to the fact that agency theory, more than other financial theories highlights and attempts to solve any conflict of interests in corporate firm/company. In addition, the

significance it accords equity financing makes it most suitable for studying the subject matter in an emerging economy like Nigeria. However, the classical agency prediction of agent-principal conflict of interests has not been extended singularly to determine the crucial roles of size and mode of operations of firms in assessing the association between corporate governance and dividend payouts; hence the gap this thesis fills.

4.2: Methodology

4.2.1: Models Specification

4.2.1.1: Relationship between Corporate Governance and Dividend Payouts of the sampled firms.

Sawicki (2009) post-Asian crisis modified agency model uncovers evidence which supports the outcome hypothesis of agency theory. He extended the agency cost of equity version in his investigation conducted at country-level in which five countries were represented by introducing five additional agency variables with industry and country-level characteristics. The choice of adapting Sawicki (2009) model is because it is a panel that includes a governance indicator, performance indicators, a controlled variable and sectoral classification. However, dynamic panel, an advanced panel is the method of the analysis. The consideration in employing such a model is the separation of impacts of ownership structure, firm size and sectoral classification from the other factors that might as well influence dividend behaviour. This is done by employing panel estimation and including the lag of the dependent variable as one of the independent variables. With this lagged dependent variable, any measure influence on dividend behaviour is conditioned on the entire regressors.

In the econometric literature, such a model is referred to as a dynamic panel model. A general way of specifying such a model is as follows:

$$y_{it} = \sum_{j=i}^{m} y' i,t - jyj + x' it\beta + \alpha i + \lambda t + \varepsilon it \qquad i = 1,2 \ldots\ldots, N, \qquad \ldots\ldots\ldots\ldots\ldots\ldots (11)$$

The γ and β are parameters to be estimated, X_{it} is (KxL) vector of strictly exogenous covariates, α_i and λ_t are the unobservable individual and the time effects respectively and ε_{it} ↾ iid (0, ς), the standard panel models like fixed and random effects models are biased and inconsistent in this case, as the lagged dependent variable is correlated with the error term ε_{it}. This inconsistency of the estimated parameters persists even if no correlation in the error term is assumed. The general approach to estimate such a model relies on Arellano and Bond (1991) who suggest a System Generalised Method of Moments (SYSGMM) estimator using the instrumental variables technique. They also submit that even more effective estimators can be estimated using additional lags of the dependent variable as instruments; but employing more lags as instruments lead to over-identification of the model. In addition, SYSGMM provides consistent estimators if the underlying assumption of no second order autocorrelation in the residuals is fulfilled. Arellano and Bond (1991) then suggest a specification test to check for the over-identification in the model and a test for second order autocorrelation.

However, in some case, it does not make sense to rely on SYSGMM because its estimates are not necessarily sufficient statistics since they sometimes fail to take into account all relevant information in the sample (that problem never arises in method of maximum likelihood). In addition, if instruments outnumber regressors, then equations outnumber unknowns and the system usually cannot be solved. Thus the moment conditions cannot be expected to hold perfectly in finite samples even when they are true asymptotically. If *N* is small, the cluster–robust standard errors and the Arellano–Bond autocorrelation test may be unreliable.(Roodman, 2009)

For estimating the impact of corporate governance on dividend behaviour of the selected quoted firms in Nigeria, the following model is estimated using the GMM estimation techniques:

$$Div_{i,t} = \beta_1 Div_{it-1} + \beta_2(NOD_{it}) + \beta_3(INST_{it}) + \beta_4(INDDIR_{it}) - \beta_5(DIRS_{it}) + \tau_t + \psi_t + \varepsilon_{it} \quad (12)$$

Where:

Div_{it} is the dividend per share of firm i at time t

Div_{it-1} is the lagged value of the dividend paid of firm i at time t

(BD_{it}) is the board size of firm i at time t

$(INSTT_{it})$ represents the stake of institutional investors of firm i at time t.

$(DIRS_{it})$ is the shareholding of directors of firm i at time t.

$(INDDIR_{it})$ refers to number of independent directors of firm i at time t.

τ_t represents time effects.

ψ_i is the firm specific fixed effects.

$\beta_1 \ldots \beta_5$ are coefficients of the parameters.

ε_{it} represents the stochastic term.

Studies have shown that dividend can be explained by some firm specific factors such as cash flow related problem (Jensen and Meckling, 1976; Jensen, 1986); growth opportunities (Rozeff, 1982; Smith and Watts, 1992); profitability (Barlett and Ghoshal, 1989; Fama and French, 2001); market capitalisation (Fama and French, 2001); gross earnings (De Angelo *et al*, 2004; Bulan, Subramarian and Tanlu, 2007); and turnover (Odedokun, 1995). Given that corporate governance is not the sole factor affecting dividend payout; two control variables: gross earnings and profit after tax are introduced to isolate other contrasting incentives that had been found to influence dividend payout. Thus, these controlled variables are incorporated into equation 12 to become equation 13.

$$Div_{it} = \beta_1 Div_{it-1} + \beta_2(NOD_{it}) + \beta_3(INST_{it}) + \beta_4(INDDIR_{it}) - \beta_5(DIRS_{it}) + \beta_6(GENit) + \beta_7(PAT_{it}) + \tau_t + \psi_i + \varepsilon_{it} \quad (13)$$

Where:

Div_{it} is the dividend per share of firm i at time t

Div_{it-1} is the lagged value of the dividend paid of firm i at time t

(BD_{it}) is the board size of firm i at time t

($INSTT_{it}$) represents the stake of institutional investors of firm i at time t.

($DIRS_{it}$) is the shareholding of directors of firm i at time t.

($INDDIR_{it}$) refers to number of independent directors of firm i at time t.

(PAT_{it}) is the profits after tax of firm i at time t.

(GEN_{it}) refers to the gross earnings of firm i at time t.

τ_t represents time effects.

ψ_i is the firm specific fixed effects.

$\beta_1 \ldots \beta_7$ are coefficients of the parameters.

ε_{it} represents the stochastic term.

4.2.1.2: Size Dimension of the Relationship between Corporate Governance and Dividend Payouts of the Sampled Firms in Nigeria.

Classification of listed firms is not an objective but qualitative judgment. Different countries have definitions of firm size. In Nigeria, there is no clear-cut definition that differentiates a small firm from a large one (Ekpenyong and Nyong, 1992). Arowomole (2000) asserts that there is no universally accepted definition of size of firms because different criteria are used for different firms. Continuing, he affirms that many countries defined it in terms of capital investment, number of employees, total assets and turnover.

According to Ayodeji and Balcioglu (2010) and Lucky and Olusegun (2012), some definitions are given to small firms in Nigeria as depicted in Table 4.2.1. From the Table, it is clear that authors used one or more criteria to define a firm. However, listed firms are classified into small firms and large firms in financial literature. (Bradely *et. al*, 1998; Fama and French, 2001; Grullon and Michealy, 2002; Gugler and Yurtuglu, 2003; Farinha, 2003; Subramania and Susela, 2011). This thesis upholds the definition of business given by the National Council of Industry. Therefore, total asset is used as a measure of firm size. They measure the amount of capital invested in the operations of a firm. The choice is based on availability of data. The data was sourced from the Nigerian Stock Exchange Fact book (various issues) and annual reports & statements of accounts of selected firms and Analysts' Data & Resources Services Limited.

From previous section, dynamic panel technique was also employed to test if the size of firms depended on the relationship between corporate governance and dividend payout in Nigeria. The division of firms into small and large is depicted in table 4.2.2

Table 22: Definitions Given to Businesses.

AUTHORS	DEFINITIONS
Ogundele (2007)	Minimum of 5 employees with capital of not less than ₦50,000.00
Osuagwu (2001)	Less but not greater than 50 employees in any situation with not less than ₦150,000.00
Arowomole (2000)	Capital investment not exceeding ₦5 million excluding land and working capital.
CBN (1991)	Working capital with a turnover not more than ₦25 million annually
Administrative Staff College of Nigeria (ASCON, 1991)	Total cost no more than ₦750,000.00 including the total cost of land.
Obafemi Awolowo University (2000)	Total assets in capital equipment, plant and working capital not less than ₦250,000.00 and 50 full time employees.
Nigerian Industrial Policy (2005)	Total investment between ₦100,000.00 and ₦2 million, excluding land, but inclusive of working capital.
The National Council of Industry (2010)	Total capital investment, but excludes cost of land in the ceiling of ₦1billion.

Adapted from Lucky and Olusegun (2012), Ayodeji and Balcioglu (2010).

Table 23: Size Dimension of the Selected firms in Nigeria

Size	Number of firms	Total Assets
Small	38	Less than ₦1 billion
Large	63	Equal or greater than ₦1 billion

Source: *Companies' annual reports & statements of accounts and NSE Factbook (various issues)*

The equation of size dimension is specified as:

$$Div_{it} = \beta_1 Div_{it-1} + \beta_2(NOD_{it}) + \beta_3(INST_{it}) + \beta_4(INDDIR_{it}) - \beta_5(DIRS_{it}) + \beta_6(SZ_{is(I)}) + \beta_7(PAT_{it}) + \beta_8(GEN_{it}) + \tau_t + \psi_i + \varepsilon_{it} \quad (14)$$

Where:

Div_{it} *is the dividend per share of firm i at time t*

Div_{it-1} is the lagged value of the dividend paid of firm i at time t

(NOD_{it}) is the board size of firm i at time t

$(INSTT_{it})$ represents the stake of institutional investors of firm i at time t.

$(DIRS_{it})$ is the shareholding of directors of firm i at time t.

$(INDDIR_{it})$ refers to number of independent directors of firm i at time t.

$(SZ_{is(l)})$ is total asset *proxied for size of small (large) firm at time t.*

(PAT_{it}) is the profits after tax of firm i at time t.

(GEN_{it}) refers to the gross earnings of firm i at time t.

τ_t represents time effects.

ψ_i is the firm specific fixed effects.

$\beta_1 \ldots \beta_8$ are coefficients of the parameters.

ε_{it} represents the stochastic term.

Equation 14 above tested the null hypothesis which states that the relationship between dividend payouts and corporate governance does not differ by size dimension of quoted firms in Nigeria.

4.2.1.3: Sectoral Analysis of the Relationship between Corporate Governance and Dividend Payouts of the Sampled Subsectors in Nigeria.

Further, dynamic panel is used to analyse the impact of corporate governance on dividend payments based on the mode of operations of the selected sub-sectors.

The sectoral analysis equation is:

$$Div_{it} = \beta_1 Div_{it-1} + \beta_2(NOD_{it}) + \beta_3(INST_{it}) + \beta_4(INDDIR_{it}) - \beta_5(DIRS_{it}) + \beta_6(PAT_{it}) + \beta_7(GEN_{it}) + \tau_t + \psi_i + \varepsilon_{it} \quad (15)$$

Where:

Div_{it} is the dividend per share of firm i at time t

Div_{it-1} is the lagged value of the dividend paid of firm i at time t

(NOD_{it}) is the board size of firm i at time t

($INSTT_{it}$) represents the stake of institutional investors of firm i at time t.

($DIRS_{it}$) is the shareholding of directors of firm i at time t.

($INDDIR_{it}$) refers to number of independent directors of firm i at time t.

(PAT_{it}) is the profits after tax of firm i at time t.

(GEN_{it}) refers to the gross earnings of firm i at time t.

τ_t represents time effects.

ψ_i is the firm specific fixed effects.

$\beta_1 \ldots \beta_8$ are coefficients of the parameters.

ε_{it} represents the stochastic term.

The above model tested the null hypothesis that the relationship between corporate governance and dividend payouts does not differ by sectoral classification of firms in Nigeria. From the foregoing, equations 13, 14 and 15 were the models estimated in the thesis.

Table: 24: Operational definitions of key variables

Variables	Name	Definitions	Measurement
Dependent variable			
Dividend payout	DIV	It is the return on equity payable to shareholders. It is also referred to as dividend per share.	Kobo
Independent variables			
Board size	BS	Total number of directors on the Board of directors.	Number
Institutional Shareholding	INST	The total percentage of shares owned by governments, foreigners and companies.	%
Directors' Shareholding	DIRS	Proportion of directors' shareholding to total shares in the paid-up share capital.	%
Independent Directors	INDDIR	Number of independent directors on the Board of directors. It is the number of directors without shareholding in the firms. It is also called outsiders on the Board.	%
Size of Firm	SZ	Size is measured as the total assets of a firm at a particular point of time. It is expressed in naira form.	Number
Controlled variables			
Profits after tax	PAT	It is calculated as profits before tax, less tax and other expenses. It is expressed in its logarithm form.	Naira
Gross Earnings	GEN	Total Turnover. It is expressed in its logarithm form.	Naira

Source: *Author, 2015.*

4.2.3: Sources of data

A total of 101 non-financial quoted firms on the Nigerian Stock Exchange (NSE) constituted the sample of this study. The selection was from 12 sub-sectors listed on the exchange based on availability of required data covering 1995 to 2012. The 12 sub-sectors of the corporate sectors covered in the study are: agriculture, (6); automobile and tyres, (6); building materials, (8); brewery, (6); chemical and paints, (9); conglomerates, (9); construction, (6); food and beverages, (17); health care, (11); domestic & industrial products, (10); petroleum and marketing, (9) and printing and publishing, (4).

Data was mainly sourced from Analysts' Data Services & Resources Limited, annual reports and statements of accounts of sampled firms and Nigerian Stock Exchange's fact books.

4.2.4: Estimation Techniques and Methods of Analyses

To achieve the stated objectives of the thesis, preliminary analyses (descriptive analysis and correlation matrix), pooled, fixed effect and random effect), differenced GMM and system GMM estimation techniques were employed to show:

I. The relationship between corporate governance and dividend payouts of the sampled firms.

To examine the impact of corporate governance on dividend payouts in Nigeria, five estimators: pooled regression, fixed effects, random effect, differences GMM and system GMM were employed for comparison of empirical findings.

It was observed that the first four estimation techniques could not address the endogeneity bias that surfaced in the relationship between corporate governance and dividend payouts (as noted by previous studies: Jiraporn *et al*, 2011; Kumar, 2004; John and Knyazeva, 2006; John and Kadyrzhanova, 2008). The pooled OLS estimator does not control for the joint endogeneity of the explanatory variables or for the presence of firm-specific effect. A fixed effect and random effect OLS estimators eliminate the firm-specific effect, but do not account for the joint endogeneity of the explanatory variables. The difference GMM estimator accounts for joint endogeneity and firm-specific effects, but eliminates valuable information and uses weak instruments; but the SYS-GMM overcomes all the weaknesses of the other named estimators. Therefore, to contribute to knowledge, the system GMM that exhibits superiority over the aforementioned estimation techniques is the choice.

II. The size dimension of listed firms in Nigeria.

Listed firms are classified into small and large in financial literature (Bradley *et. al*, 1998; Fama and French, 2001; Grullon and Michealy, 2002; Gugler and Yurtuglu, 2003; and Farinha, 2003). Accordingly, sampled firms were classified into two categories: small and large firms. Size is measured by total assets using one billion naira (₦1 billion) as a benchmark. Firms, having less than one billion naira (₦1 billion) as total assets were regarded as small while those whose total assets; were greater than one billion naira (₦1 billion) were categorised as large. 65% of the total firms over time were large while the remaining 35% were regarded as small firms.

III. The sectoral classification of the selected sub-sectors in Nigeria.

Twelve sub-sectors were chosen based on annual available data sourced from annual and statements of accounts of selected firms and Analysts' Data Services & Resources Limited covering 1995 and 2012 (see appendices).

4.2.5: Estimation Procedures

The first and second objectives of the thesis were addressed by estimating the dynamic panel (differenced GMM and system GMM) and the OLS (pooled, fixed effect and random effect). Moreover, size dimension of the relationship between corporate governance and dividend payouts was analysed by dividing the selected firms into small and large. Sectoral classification of firms was also estimated. The selected firms were grouped into 12 subsectors to determine if the relationship between dividend payout and corporate governance differed by mode of operations.

4.2.6: Diagnostic Tests

Arellano and Bond (1991) proposed a test for the hypothesis that there was no second-order serial correlation for the disturbances of the difference equation. This test was important because the consistency of the GMM estimator relies upon the fact that:

$$E[\Delta v_{it}\Delta v_{i,t-2}] = \mathbf{0} \qquad \textbf{(16)}$$

This hypothesis is true if the v_{it} are not serially correlated or follow a random walk. Under the latter situation, OLS and GMM of the differences version are consistent. Arellano and Bond (1991) suggest Sargan's test of over-identifying restrictions. Other tests suggested are Sargan's difference statistic to test nested hypotheses concerning serial correlation in a sequential way and Hausman (1986) test based on the difference between the two-step GMM estimators assuming the disturbances in the levels are MA (1) and MA (2) respectively.

Blundell and Bond (1991) attribute the bias and the poor precision of the differences GMM estimator to the problem of weak instruments and characterised this by its concentration parameter. Also, Blundell and Bond (1998) show that an additional mild stationarity restriction on the initial conditions process allows the use of an extended system GMM estimator that uses lagged differences of y_{it} as instruments for equations in levels (Arellano and Bover, 1995).

Together with the Arellano and Bond (1991) conditions on the differences GMM estimator, Blundell and Bond (1998) show that the system GMM estimator produced dramatic efficiency gains over the basic differences level restrictions suggested by

Arellano and Bover (1995) where differences instruments became weak. Things improved for differences GMM as T increases; however, with short T and persistent series, the Blundell and Bond (1991) findings supported the use of the extra moment conditions. In addition, the system GMM estimator not only improves the precision, but also reduces the finite sample.

CHAPTER FIVE

EMPIRICAL ANALYSIS

5.1: Introduction

This chapter reports the preliminary analyses such as descriptive and correlation analyses of the relationship between corporate governance and dividend payout of the 101 non-financial firms. It also covers the dynamic panel analysis of the relationship between corporate governance and dividend payouts in general; the relationship based on size dimension as well as sectoral classification of the firms is also presented. Finally, the general implications of the empirical results are discussed.

5.2: Preliminary Analysis

5.2.1: Descriptive Analysis

Table 25 shows the details of descriptive statistics of variables that affect dividend payments of the 101 selected quoted firms on the floor of the Nigerian Stock Exchange between 1995 and 2012. The descriptive analysis results represent the three estimated equations which describe sample firms' characteristics of the data. It is applied to find the nature of the data. However, descriptive statistics for variables based on sectorial classification of firms is presented in Appendix A3. The table shows that dividend payout (DP) ranges from ₦0 to ₦10 Naira with a mean of ₦0.45 and standard deviation of ₦1.20. Size ranges from ₦19.00 to ₦673,666.00 with a mean and standard deviation of ₦15,156.41 and ₦44,553.30 respectively. Also, board size (BS) ranges from 3 to 21 with a mean of 9.58 and standard deviation of 2.63. The institutional shareholding (INST) ranges from 0% to 97.45% with a mean and standard deviation of 45.44% and 26.33%

respectively. Directors' shareholding (DIRS) ranges from 0% to 90.55% with a mean of 2.15% and a standard deviation of 26.22%. The number of independent directors (INDDIR) ranges from 0% to 91.67% with a mean and standard deviation of 41.69% and 0.24% respectively. It also shows that profits after tax (PAT) ranges from ₦20,434.00 to ₦106,605.00 with a mean of ₦1,129.53 and standard deviation of ₦5,016.25 while gross earnings range from ₦277.00 to ₦673,181.00 with mean and standard deviation of ₦18,305.06 and ₦47,409.81 respectively.

Table 25: Descriptive statistics of variables

ALL FIRMS	DIV	SZ	BS	INST	INDDIR	DIRS	PAT	GEN
N	1,236	1,236	1,103	1,236	1,074	1,142	1,069	1,218
MIN	0	19.00	3	0	00.33	0	20,434.00	277.00
MAX	10.00	673,666.00	21	97.45	91.67	90.55	106,605.00	673,181.00
Mean	0.45	15,156.41	9.58	45.44	41.69	2.15	1,129,.53	18,305.06
Std. Deviatn	1.20	44,553.30	2.63	26.23	0.24	26.22	5,016..25	47,409.81

Note: Nominal values not reported
Source: *Companies' annual reports& statements of accounts and NSE Factbook (various issues)*

5.2.2: Correlation Analysis

Table 26 below summarises the results of preliminary pairwise correlation among the variables. It serves two important purposes. First, it determines whether there is a bivariate relationship between each pair of the dependent and independent variables. Second, it ensures that the correlations among the explanatory variables are not so high to the extent of posing multicollinearity problems. The result shows that there is a positive correlation between dividend payout and other variables. Also, the correlation within the explanatory variables is low, suggesting that there is no problem of multicollinearity.

Table 26: Correlation Matrix of the Variables

	DIV	L.DIV	NOD	INST	DIRS	INDDIR	PAT_L	GEN_L	SZ_L
DIV	1								
L.DIV	0.7987**	1							
BS	0.1841*	0.1647*	1						
INST	0.0867*	0.0441	0.0554	1					
DIRS	-0.0279	-0.027	-0.0339	0.0513	1				
INDDIR	0.1461*	0.1329*	0.2223*	0.3953*	-0.0328	1			
PAT_L	0.0745*	0.3239*	-0.0232	0.0456	-0.0016	0.0342	1		
GEN_L	0.3787*	0.3921*	0.3842*	0.2320*	-0.0143	0.2817*	0.0542	1	
SZ_L	0.3325*	0.3493*	0.3999*	0.1946*	-0.0517	0.2550*	0.0739*	0.9368**	1

* Correlation is significant at the 0.01 level (2tailed)
** Correlation is significant at the 0.05 level (2tailed)

Source: Companies' annual reports & statements of accounts and NSE Factbook (various issues)

5.2.3: Robustness Check

A battery of robustness checks is carried out to test the validity of the empirical findings of the research. The set of OLS regression does not address endogeneity bias that surfaced in the data of the study. Theoretically, it is plausible; however, it would lead to an overstatement that the impact of corporate governance on dividend payouts does not vary over time. Also, previous studies (Kumar, 2004; John and Knyazeva 2006; Jiraporn *et al*, 2011) were not able to address the endogenous problem in their analyses. Jiraporn *et* al (2011) submit that 'it is often difficult to eliminate endogeneity completely'.

Pooled estimator could not be relied upon as a good estimator in this study due to the following:

(i) It assumes that time and individual specific effects do not exist in the model. Ignoring these significant effects yielded inefficient estimates and biased standard errors.

(ii) It does not use any panel information in its estimations.

(iii) The unobserved specific effects ignored by pooled regression might be correlated with the regressors employed.

In addition, the next estimator employed in the analysis is fixed effect. Fixed effect assumes that time effects and individual effects are fixed; hence it introduces dummies to the parameters which lead to loss of degree of freedom. The standard errors of most of the variables are not significant at 95% and 99% levels; hence their estimates are unreliable. Although, its estimates are consistent, it is inefficient since the individual specific effects are uncorrelated.

Random effect estimator on the other hand, treats time and individual specific effects randomly in order to avoid loss of degree of freedom. This estimator is not realistic because its estimates are likely to distort the nature of the true relationship between the dividend payouts and corporate governance across selected firms. Hence, to take account of the individual specific characteristics, it is dropped from the analysis.

Moreover, the coefficient estimates in a probability sense show that the firm-level individual effects are uncorrelated with the other regressors, meaning the random effect estimator is consistent and efficient like the fixed effect. Hausman (1978) test was then applied to know the preferred model, since it is evident in the results that there is no significant difference between FE and RE results. The Hausman test's null hypothesis states that the individual specific effects are uncorrelated with the other regressors in a model. The Hausman test shows that the p value is not significant at the 95% significant level, therefore the null hypothesis is accepted that random effect is more appropriate and preferred.

The above three (pooled, fixed effect and random effect) estimators analysed failed to give the desired estimates due to the following;

i. The D. Watson test was not got because of the inclusion of the lagged value of the dependent variable in the regressors. Hayashi (2011) points out, that the Durbin-Watson statistic assumes there is endogeneity even under the alternative hypothesis, an assumption which is typically violated if there is serial correlation.
ii. It is not possible to test for serial correlation of the estimated results of panel structure in ordinary least square regression (OLS) since the coefficient of the lagged term of the dependent variable gives sufficient evidence to test for serial correlation especially in the case of a dynamic panel model.

Further, it is realised that the endogeneity problem exhibited in the data cannot be addressed by OLS. The study addresses the endogeneity problem that surfaced in the data as it employs the system Generalised Method of Moments (SGMM), following Arellano and Bover (1995). It has demonstrated that the direction of causality runs only from corporate governance to dividend payouts and not vice versa. The results indicate that corporate governance has significant impact on the dividend payout of the selected firms. In Nigeria, the reverse causality is less plausible, especially in firms where institutional investors and the number of independent directors are prominent; it is not easy for managers to cause significant changes in corporate decisions.

It was found that the difference GMM has poor finite sample properties in terms of bias and imprecision. This occurs when the lagged levels of the series are weakly correlated with subsequent differences, so that the instruments available for the differenced

equations are weak (Blundell and Bond, 1998). All these are the major drawbacks of the difference-GMM estimator. The difference GMM estimator, as proposed by Arellano and Bond (1991), has been extensively used in applied economics in recent years. However, more recently, Bond and Bover (1995), Bond and Blundel (1998) and Blundell, Bond and Windmeijer (2000) document that in the presence of weak instruments, the difference GMM has large biases and low asymptotic precisions. Applied works also show that when time series are persistent and the panel relatively short, the difference GMM perform badly. The SYS-GMM approach overcomes those problems by combining regressions in levels with regressions in differences. More specifically, recent applications of the difference GMM and the SYS-GMM by Blundell, Bond and Windmeijer (2000), Bond, Hoeffler and Temple (2001) and Hoeffler (2002) show the superiority of the SYS-GMM over the difference GMM. Equivocally, the difference GMM estimator is dropped from the analysis.

From the discussion so far, pooled, fixed effects, random effect and difference GMM estimators have been tested to be inappropriate for this thesis. Therefore, the System GMM discussed in chapter four as the best estimator in the dynamic panel specification of this thesis is the last resort. Preference for it is based on the following: first, it has addressed the endogeneity bias that surfaced in the data. Second, there is an agreement between the signs of one step and two step of the System GMM and their levels of significance (1% and 5% levels respectively) concur together. Third, the Sargan test was insignificant, implying that the instruments employed in the estimation were valid. Fourth, the values of both AR(1) and AR(2) shows there is no second order serial correlation problems, therefore, the lag of the dependent variable and other regressors used as instruments are strictly exogenous and thus good instruments.

5.3: Analysis of the Relationship between Corporate Governance and Dividend Payout of the sampled Firms

Table 27 presents the OLS results (pooled and static panel) and dynamic panel (difference GMM and system GMM). It shows the impacts of board size, institutional shareholding, directors' shareholding, the number of independent directors, profits after tax and gross earnings ranges on dividend payouts in selected listed firms. The Wald/F statistics value shows that all explanatory variables are statistically significant in explaining changes in dividend payouts; meaning that the model is well specified and that corporate governance affects dividend payout. The coefficient of the one step and two step dynamic panels for both the difference and system GMM are almost the same, however, both one step and two step of SYSGMM show that the instruments used in the regression are valid.

Specifically, there is a positive and significant relationship between past dividend payouts and current level of dividend payouts. According to the differenced GMM, the current dividend payout increases by 20.1% given a 1% increase in previous dividend payout. The percentage of institutional investors tends to impart on dividend payout. The dividend payout increases by 0.6% given a 1% increase in the shareholding of institutional investors. In addition, dividend payout increases by 23.0% given a 1% increase in the number of independent directors; but there is no significant relationship between directors' shareholding and dividend payout.

On the other hand, the System GMM shows that most of the corporate governance indicators are correctly signed and are statistically significant in explaining changes in dividend payout. Previous dividend payout is positive and significantly related to the

current dividend payout. The current dividend payout increases by 44.88% given a 1% increase in previous dividend. The percentage of institutional investors is also positively related to dividend payout. This relationship is statistically significant at 1%, This implies that given a 1% increase in the percentage of institutional investors, dividend payout increases by 0.9%. Also, the results show a significant relationship between the number of independent directors and dividend payout, implying that given a 1% increase in the percentage of independent directors, dividend payout increased by 68%. From the results, the influence of independent directors on dividend payment is high and interesting; they do not normally collude with managers to expropriate shareholders' wealth. Independent directors prefer overly conservative business strategies in order to protect shareholders; it is often argued that independent directors improve corporate governance (Rosenstein and Wyatt, 1990; Abidin, Kamal and Yusoff, 2009; Horváth, and Spirollari, 2012),

The relationship between directors' holding and dividend payout is significant, but inverse; implying that a 1% increase in directors' holding led to a 23% decrease in dividend payout. Profits after tax (PAT) and gross earnings have substantial and significant association with dividend payouts respectively.

Table 27: Relationship between Corporate Governance and Dividend Payouts of sampled firms in Nigeria

Variables	Pooled Regression	Fixed Effect	Random Effect	Difference GMM		System GMM	
				One step	Two Step	One Step	Two Step
DVDP(-1)	-	-	-	0.202***	0.202***	0.448***	0.448***
BS	0.010	0.032***	0.028*	-0.013	-0.013***	-0.023	-0.023***
INST	-0.002	0.002	0.001	0.006**	0.006***	0.009***	0.009***
DIRS	-0.001	-0.001	-0.001	-0.0004	0.0001	-0.0008	-0.0001
INDDIR	0.178	-0.018	0.036	0.226	0.226***	0.681***	0.681***
PAT_L	0.210*	0.063	0.073	3.749***	3.747***	2.05**	2.052***
GEN_L	0.532***	0.465***	0.445***	0.004	0.004***	0.659***	0.657***
Constant	-6.79***	-4.95***	-0.4850***	-38.635***	-38.628***	-27.666***	-27.661***
NO Of OBS	912	912	912	605	605	824	824
F Statistic Waldchi2(P-value)	29.68***	7.63***	67.80***	49.92***	2.320***	406.98***	1.230***
R^2	0.1644	0.1556	0.1591	-	-	-	-
Hausman Test	-	0.1566		-	-	-	-
LM		12.48***		-	-	-	-
AR(1) test	-	-		-	-	-	-2.4959 (0.0126)
AR(2) test	-	-		-	-	-	-0.0244 (0.9805)
Sargan Test	-	-		471.85 (1.000)	80.115 (0.9876)	510.379 (0.9899)	83.805 (1.000)

NOTE:* *, ** *and* *** *depict 10%, 5% and 1% levels of significance respectively.
Source: Companies' annual reports & statements of accounts and NSE Factbook (various issues)

5.4: Analysis of Size Dimension of the Relationship between Corporate Governance and Dividend Payouts of the sampled Firms

Table 28 reports the impact of corporate governance on dividend payouts in Nigeria based on firm size classification. Firms were classified into two groups: large and small firms based on their total assets. The Wald/F statistic tests for both the small and large firms show that the corporate governance measures are significant in explaining changes in dividend payouts. In addition, for small firms, the Sargan test shows that the instruments used in the small and large firms' models are valid.

From the results, previous dividend, board size, institutional investors, the number of independent directors, total assets, profits after tax and gross earnings estimates are positive and significant. Further, dividend payouts rose by 10.7%, 8%, 0.05%, 0.3%, 0.01%, 0.06%, and -0.02% given a percentage increase in profits after tax, gross earnings, previous dividend, shareholding of institutional investors, the number of independent directors, total assets and directors 'shareholding respectively.

In addition, all the estimates of large firms are higher in both magnitude and significance than those of small firms; the hypothesis that the association between corporate governance and dividend payment of firms does not differ by size is therefore rejected as the alternative is accepted on the basis that the relationship between the DPs and CG in large firms is positive while that of small firms is negative. These findings suggest that the impact of corporate governance on the ability of large firms in paying dividends is both economically substantial and statistically significant than those of small firms, implying that large firms pay more dividend than small firms in Nigeria.

Table 28: Analysis of Size Comparison of the Relationship Between CG and DP of Sampled Firms.

es	SMALL FIRMS							LARGE FIRMS						
	Pooled	Fixed	Random	Difference		System		Pooled	Fixed	Random	Difference		System	
				One Step	Two Step	One Step	Two Step				One Step	Two Step	One Step	Two Step
-	–	–	–	0.162	0.080	0.487***	0.311***	–	–	–	0.206***	0.206***	0.478***	0.478***
	0.004	-0.002	0.003	-0.003	-0.002	-0.003	-0.013***	0.015	0.045**	0.036*	-0.012	-0.012***	-0.025	-0.025***
	-0.002	0.002	0.001	-0.001	-0.001***	-0.0003	-0.0002*	-0.003	0.002	-0.0003	0.008*	0.008***	0.010**	0.010***
	-0.0007	-0.001	-0.001	-0.002	-0.002*	0.0001	0.001	-0.001	-0.004	-0.001	0.0002	0.0003***	-0.00003	-0.00005
R	-0.092**	-0.084*	0.111***	0.020	-0.010	0.026	0.058***	0.372	0.162	0.224	0.267	0.267***	0.821**	0.821***
	-0.033	-0.081**	-0.070**	-0.025	-0.007	-0.030	-0.022**	-0.201	-0.290	-0.263	-0.472*	-0.470***	-0.970***	-0.973***
	17.575***	7.966	8.781**	10.073*	7.913***	13.634**	-0.131***	0.199	0.052	0.067	4.114***	4.098***	2.926***	2.933***
	0.140***	0.087**	0.105***	0.080*	0.046***	0.116**	0.199***	0.981***	0.938***	0.878***	0.240	0.232***	1.136***	1.139***
	- 181.998***	-82.022*	- 90.705**	- 104.177*	-81.788***	-141.226**		- 9.323***	-6.929***	-6.634***	-40.096***	-39.909***	-32.211***	-32.277***
	292	292	292	179	179	251	251	613	613	613	418	418	567	567
s	13.14 (0.000)	2.71 (0.010)	28.16 (0.000)	11.75 (0.163)	2.18 (0.000)	84.18 (0.000)	257402.79 (0.000)	16.85 (0.000)	6.56 (0.000)	65.15 (0.000)	37.45 (0.000)	3.99 (0.000)	249.02 (0.000)	3.36 (0.000)
	5.59 (0.000)							9.76 (0.0000)						
an			9.16 (0.1647)							9.12 (0.2443)				
					-1.637 (0.102)							-2.434 (0.015)		-2.560 (0.011)
					-0.231 (0.818)							-0.419 (0.675)		0.063 (0.950)
				55.74724 (0.9215)	22.49365 (1.0000)	58.60644 (0.9841)					324.4442 (1.0000)	62.95049 (1.0000)	342.2118 (1.0000)	70.61376 (1.0000)

*Note: *, ** and *** depict 10%, 5% and 1% levels of significance respectively.*

***Source:** Author's computations, 2014: underlying data are obtained from companies' annual reports and NSE Factbook (various issues)*

5.5: Analysis of Sectoral Dimension of the Relationship between Corporate Governance and Dividend Payouts of the sampled Subsectors

Tables 29a—29d below present the sectoral analysis of the relationship between corporate governance and dividend payouts of the sampled sub-sectors.

In agricultural sub-sector, the impact of corporate governance on dividend payout is almost the same in both one step and two step of the difference GMM. The system GMM also has the same impact in that the one step and two step seem to be the same. Sargan test is a test of over-identifying restrictions, whose joint null hypothesis states that the instruments are valid instruments, that is, uncorrelated with the error term and that the excluded instruments are correctly excluded from the estimated equations. The Sargan test of the SYS GMM shows that the instruments employed are valid and hence establishes the validity of the model. Considering the estimation results in table 5.5.1a below, the null hypothesis is accepted and hence, the validity of the model is established. In addition, the significance of the Wald test also supports the overall significance of the model.

The SYS GMM estimation of the automobile and tyres subsector shows that corporate governance has an overall significant impact on the dividend payout, which is revealed by the Wald test. It also reveals that the model employed valid instruments; the lag value of the dividend payout has a positive and significant impact on the dividend payouts of the firms in the sub-sector. The estimation results also show that the higher the institutional shareholding and number of independent directors' shareholdings, the higher the dividend per share that is paid out by the firms in the sub-sector. As expected, profits after tax also exert a positive and significant impact on the dividend payout of the firms. This is in line with the a-priori expectation that high profits after tax increases the dividend payout of

firms. In the same vein, the one step and the two step system GMM estimation indicate that the proportion of independent directors on the Board of directors is positively related to the dividend payout of the firms. As expected, firms' gross earnings have positive and significant impacts on the dividend payout.

The Wald test of the system GMM estimation shows that the model for the brewery sub-sector has an overall significance level. The validity of the brewery sub-sector model is also confirmed by the Sargan test. The one-step SYS GMM estimation shows that profits after tax and the proportion of independent directors, significantly and positively affect the dividend payout of the firms in the brewery sub-sector. On the other hand, the two step estimation shows that the lag value of the dividend per share paid out by the firms has a positive influence on the current dividend per share that a firm pays out.

In the building materials sub-sector, the Sargan test of all the estimation results indicates that the instruments used are not correlated with the error term, thus signifying the validity of the instruments. The one step SYS GMM reveals that directors shareholding, profits after tax and gross earnings have a positive and significant impact on the dividend payout behaviour of the firms in this sub-sector while gross earnings of firms have an expected positive sign. The two step system GMM estimation also shows the same impact as that of the one step, and the proportion of independent directors on the Board of directors is also related positively with the dividend payout, which is expected economically.

In the chemical/paint subsector, the two step estimations are preferred to one step estimations both in the difference GMM and system GMM based on the overall model

significance as shown by Wald test. However, none of the independent variables are statistically significant in the two step difference GMM and System GMM. In the one step difference GMM and system GMM, the lag value of the dividend per share and the profit after tax have a significant positive impact on the dividend payout in the sub-sector.

The Sargan test for all the estimations in the conglomerate sub-sector shows that the instruments used are uncorrelated with the error term and the excluded instruments are correctly excluded from the estimated equations. In addition, the Wald test is significant, indicating the overall significance of the model. Profits after tax had the expected positive impact on the dividend payout in both one step difference GMM and one step system GMM.

Considering the level of significance of the variables, one step system GMM estimation is most preferred of the estimation results for the construction sub-sector. In the one step system GMM estimation, the lag value of the dividend payout, profit after tax and institutional shareholding are the significant corporate governance indicators that influence the dividend payout of the firms in the sub-sector. The lag value of the dividend payouts and profits after tax are positively related to the dividend payouts while the institutional shareholdings exert a negative impact on the dividend payout.

In the food & beverage sub-sector, the one step system GMM estimation shows that the lag value of the dividend per share, institutional investors and gross earnings have significant positive impacts on the dividend per share of the firms while directors' shareholding exerts a negative impact on the sub-sector. It could be inferred that

institutional shareholding and past dividend are the drivers of dividend payment in food and beverages sub-sector.

In healthcare sub-sector, the impact of corporate governance on dividend payout is not the same in both one step and two step of the difference GMM. The Sargan test of the SYSGMM shows that the instruments employed are valid and hence establishes the validity of the model. Previous dividend per share, numbers of independent directors and profits after tax have significant and positive impacts on dividend per share. Considering the estimation results in the table 5.5.1c, the null hypothesis is accepted and hence, the validity of the model is established. In addition, the significance of the Wald test also supports the overall significance of the model.

The SYS GMM estimation of the industrial/domestic products sub-sector shows that corporate governance has an overall significant impact on the dividend payout, which is revealed by the Wald test. As expected, profits after tax and gross earnings exert a positive and significant impact on the dividend payouts of the firms. This is in line with the a-priori expectation that higher profits after tax and gross earnings increase the dividend payout of firms. Also, past dividend per share and institutional investors exert positive and significant influence on dividend payouts of industrial/domestic products sub-sector.

The Wald test of both difference and system GMM estimations show that the model for the petroleum/marketing sub-sector has an overall significance level. The validity of its model is also confirmed by the Sargan test. The signs of one-step and two-step SYS-GMM estimates are homogenous; they show that the lag value of the dividend per share

paid out by the firms has a positive influence on the current dividend per share that the firms paid out; they indicate positive and significant impact of board size on dividend per share of the selected firms in the sub-sector.

The Sargan test of all the estimation results in the printing/publishing sub-sector indicates that the instruments used are not correlated with the error term, thus signifying the validity of the instruments used. The one and two steps SYS GMM reveal that profits after tax, the number of independent directors, institutional investors and past dividend per share have positive and significant impacts on the dividend payouts behavior of the firms in this sub-sector. In addition, the Wald test of both difference and system GMM estimations show that the model of this sub-sector has an overall significance level.

Table 29a: Analysis of Sectoral Dimension of the Relationship between Corporate Governance and Dividend Payouts of the Sampled Subsectors (Agriculture, Automobile & Tyres, Breweries)

	AGRICULTURE				AUTOMOBILE & TYRES				BREWERIES			
	Difference GMM		System GMM		Difference GMM		System GMM		Difference GMM		System GMM	
	One step	Two step	One step	Two step	One step	Two step	One step	Two step	One step	Two step	One step	Two step
DIV (-1)	0.283	5.436	0.337	-	0.39***	-	0.504***	-	0.059	2.426	0.5051***	-0.574
BS	-0.063	-0.334	0.026	-0.472	0.002	-0.0001	0.005	-0.0001	0.169	-0.06	0.0709	0.114
NST	-0.048	-0.019	0.01	0.254	0.004**	-0.001	0.004***	0.001	-0.015	0.022	-0.0162	0.003
DIRS	-0.017	-0.095	-0.002	-0.053	0.56***	-	0.393***	-	2.219	-	1.5722	-
NDDIR	-0.59	-	-0.212	6.736	0.3***	0.017	0.214***	0.017	3.52**	18.659*	2.3724	-
PAT_L	4.286	6.274	-0.514	7.782	4.76*	0.011	5.062*	0.011	14.187***	-1.12	2.9913	-2.801
GEN_L	-0.498	-6.412	-0.36	-9.933	-0.01	-	0.081***	-	0.124	-	0.5623	3.112
cons	-35.571	-	8.103	-	-49.33*	-	-53.285*	-	-150.253***	-	-36.8282	-
UM OF OBS	21	21	38	38	34	34	42	42	36	36	48	48
-	8.75	99.18	8.26	435.21	70.17	101.53	185.69	43.59	27.91	2482.95	56.67	1514.86
TATISTICS	(0.2714)	(0.0000)	(0.3105)	(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0002)	(0.0000)	(0.0000)	(0000)
AR1				-				-				-
AR2				-				-				-
SARGAN	15.9814	-	16.38238	-	34.7161		41.70391	-	35.45186	-	41.52548	-
TEST	(0.3145)		(0.9030)		(0.1462)		(0.3129)		(0.1901)		(0.5353)	

*Note: *, ** and *** depict 10%, 5% and 1% levels of significance respectively.*
Source: Companies' annual reports & statements of accounts and NSE Factbook (various issues)

Table 29b: Analysis of Sectoral Dimension of the Relationship between Corporate Governance and Dividend Payouts of the Sampled Subsectors (Building Materials, Chemical & Paints and Conglomerates)

	BUILDING MATERIALS				CHEMICAL & PAINTS				CONGLOMERATES			
	Difference GMM		System GMM		Difference GMM		System GMM		Difference GMM		System GMM	
	One step	Two step	One step	Two step	One step	Two step	One step	Two step	One step	Two step	One step	Two step
DVDP (-1)	0.14	-2.247	0.101	-5.004	0.342*	-0.425	0.41***	0.254	0.009	-8	0.125	-2.625
BS	0.005	-0.193	-0.019	-0.014	0.003	0.005	-0.009	-0.01	0.012	2.823	-0.008	0.795
NST	-0.002	0.008	0.001	-0.001	-0.003	-0.005	0.004	0.006	0.005	-0.045	-0.004	0.039
DIRS	0.775***	0.794	0.543***	1.511*	0.005	0.005	0.013	-0.002	-0.04	-25.764	0.011	-0.569
NDDIR	0.226	14.798	1.027***	8.511	0.411	0.46	0.582	0.095	-0.033	-30.308	-0.149	-18.284
PAT_L	3.456**	13.909	5.997***	9.136	29.196*	-0.308	49.514***	-0.275	6.107***	4.008	7.492***	-16.816
GEN_L	0.212*	0.213	0.052	-0.597	0.504	0.41	0.164	0.326	0.04	-2.979	0.068	0.136
_cons	-37.741**	-151.223	-62.798***	-92.05	-305.344*	-	-512.104***	-	-63.612***	-19.581	-77.547***	171.985
NUM OF OBS	35	35	59	59	66	66	89	89	57	57	83	83
F-STATISTICS	111.27 (0.0000)	9902.86 (0.0000)	97.09 (0.0000)	23.61 (0.0013)	10.74 (0.1504)	24264.40 (0.0000)	177.25 (0.0000)	1809.11 (0.0000)	31.58 (0.0000)	929.53 (0.0000)	111.24 (0.0000)	326.00 (0.0000)
AR(1)				0.01372 (0.9891)				-				-0.3401 (0.7337)
AR(2)				-0.7008 (0.4834)				-				-0.38181 (0.7026)
SARGAN TEST	35.2699 (0.1621)	2.740 (1.0000)	57.69474 (0.0664)	2.01 (1.0000)	68.40286 (0.0632)	-	103.8626 (0.0820)	-	46.01207 (0.4718)	4064106 (1.0000)	62.88252 (0.4448)	0.05967 (1.000)

*Note: *, ** and *** depict 10%, 5% and 1% levels of significance respectively.*
Source: Companies' annual reports & statements of accounts and NSE Factbook (various issues)

Table 29c: Analysis of Sectoral Dimension of the Relationship between Corporate Governance and Dividend Payouts of the Sampled Subsectors (Construction, Food & Beverage and HealthCare)

	CONSTRUCTION				FOOD & BEVERAGE				HEALTHCARE			
	Difference GMM		System GMM		Difference GMM		System GMM		Difference GMM		System GMM	
	One step	Two step	One step	Two step	One step	Two step	One step	Two step	One step	Two step	One step	Two step
DIV (-1)	0.166	-2.309	0.349**	-2.603	0.026	0.039	0.225**	0.195	0.088	0.212	0.156***	0.098
BS	0.104*	0.194	0.042	0.205	-0.017	-0.005	-0.003	-0.008	-0.005	0.035	0.002	0.011
NST	-0.005	-0.014	-0.006*	-0.015	0.002	0.0002	0.005	0.002	-0.001	0.002	0.002	-0.0
DIRS	-0.003	0.00009	-0.002	0.0003	-0.026	-0.026	0.057	0.05***	0.002	0.033	0.026	-0.041
NDDIR	-0.061	-0.675	-0.079	-	-0.849**	-0.254	-0.645	-0.166	0.133	0.032	0.058	-0.200
PAT_L	7.768	0.028	9.39***	-0.593	1.015	-0.821	-0.24	-0.204	28.016*	0.705	17.882***	0.013
GEN_L	0.364	-	0.046	0.630191	-0.076	0.032	0.119	0.177***	0.273	-0.837	0.029	-
_cons	-84.051*	-	-97.118***	-	-8.851	8.549	1.689	0.663	-291.198*	-	-184.618***	-
NUM OF OBS	43	43	56	56	90	90	120	120	42	42	62	62
F-STATISTICS	27.70 (0.0002)	113.05 (0.0000)	47.03 (0.0000)	258.39 (0.0000)	10.27 (0.1738)	3845.64 (0.0000)	20.09 (0.0054)	25081.17 (0.0000)	5.78 (0.5662)	124.05 (0.0000)	65.34 (0.0000)	523224.69 (0.0000)
AR(1)				-				-1.1679 (0.2428)				-
AR(2)				-				-1.067 (0.2860)				-
SARGAN TEST	39.93993 (0.2993)	-	55.49199 (0.3093)	-	86.44244 (0.0651)	4.884386 (1.0000)	123.7376 (0.0731)	7.136187 (1.0000)	28.27428 (0.7826)	-	50.22964 (0.4245)	-

*Note: *, ** and *** depict 10%, 5% and 1% levels of significance respectively.*

Source: Companies' annual reports & statements of accounts and NSE Factbook (various issues)

Table 29d: Analysis of Sectoral Dimension of the Relationship between Corporate Governance and Dividend Payouts of the Sampled Subsectors (Industrial/Domestic, Petroleum/Marketing and Printing/Publishing)

	INDUSTRIAL/DOMESTIC				PETROLEUM/MARKETING				PRINTING/PUBLISHING			
	Difference GMM		System GMM		Difference GMM		System GMM		Difference GMM		System GMM	
	One step	Two step	One step	Two step	One step	Two step	One step	Two step	One step	Two step	One step	Two step
DIV (-1)	0.329***	-0.448	0.28***	0.620	0.216	-0.220	0.531***	0.270	0.07	-	0.195	-
BS	-0.012	-0.020	0.001	-0.103	-0.145	-0.012	-0.22**	-0.069	0.001	0.151	0.001	0.168
NST	-0.001	-0.001	-0.002	-0.001	0.02	0.008	0.019	0.010	-0.009**	0.025	-0.008***	0.024
DIRS	-0.005	-0.002	-0.007*	0.006	-1.064	-1.785	-2.211	-0.675	-0.163	-	-0.487	-
NDDIR	0.127	0.215	0.007	1.467	-0.269	1.081	1.045	-2.639	-0.012	-4.373	0.096	-4.400
PAT_L	2.704	0.177	7.53*	-0.099	1.693	-15.240	4.157	-15.313	23.069*	-	18.559*	-0.099
GEN_L	-0.017	-0.170	-0.02	0.135	-0.461	4.424	0.065	-4.874	-0.005	-0.101	-0.001	-
_cons	-27.556	-	-77.356*	-	-10.449	111.864	-41.679	212.311	-237.395*	-	-190.953*	-
NUM OF OBS	76	76	96	96	64	64	84	84	41	41	47	47
F-	10.94	22841.18	23.29	35619.88	5.89	2.53	52.00	19.19	13.61	20.76	39.02	1436.45
STATISTICS	(0.1414)	(0.0000)	(0.0015)	(0.0000)	(0.5523)	(0.9249)	(0.0000)	(0.0076)	(0.0586)	(0.0004)	(0.0000)	(0.0000)
AR(1)				-				-0.28667 (0.7744)			-	-
AR(2)				-				0.19337 (0.8467)				-
SARGAN TEST	68.1 (0.3396)	-	95.17028 (0.1184)	-	75.5487 (0.0344)	3.537987 (1.0000)	79.61825 (0.2021)	2.263172 (1.0000)	37.08074 (0.3288)	-	46.43613 (0.5777)	-

*Note: *, ** and *** depict 10%, 5% and 1% levels of significance respectively.*

Source: Companies' annual reports & statements of accounts and NSE Factbook (various issues)

5.6: Discussion of the Results

Empirical findings from the estimations are discussed in this section according to general, size dimension and sectoral classification results respectively.

5.6.1: Relationship between Corporate Governance and Dividend Payouts

The empirical strategy is based on identifying fundamental determinants that explain dividend payouts and its relationship with corporate governance. Methodologically, this thesis employs five econometric techniques: pooled regression, fixed effects, random effect, Differenced GMM and System GMM. The signs of the coefficients provide information regarding the nature of their relationship. More specifically, a positive interaction term reveals that they are complimentary while a negative sign indicates that a dividend is used as a substitute for corporate governance. The difference GMM estimator (in the case of one step and two step) neither include level equations in its estimation, nor utilise all the available moment conditions (Arellano and Bond, 1991). The inconsistency in the estimated results of the relationship (directional and significance) between the regressors and the dependent variable (dividend payout) as in the case of the one-step and two-step difference GMM also raise questions about its usability. However, a justification of the system GMM estimator as emphasised in this case is that the results of the one-step and two-step system GMM is consistent in terms of the sign and significance of the relationships as expressed in the model.

It is evident that lagged (previous) dividend payout has a significant positive effect on dividend payouts. This shows that the dividend payout in the previous year plays a vital role in determining the current year dividend payout in Nigeria. The results also show that gross earnings, profits after tax and all the governance indicators (board size, number of

independent directors and institutional shareholding) except directors' shareholding are found to significantly determine dividend payouts in the sampled firms. Implying that, when board size, number of independent directors and percentage of institutional investors increase respectively; they influence firms to pay dividends; while an increase in directors' shareholding will lead to a decrease in dividend per share.

Based on the empirical findings, the positive and significant relationship of board size with dividend payouts show that the firms where some shareholders are on the board; use their power to influence dividend policy. The results are supported by Shleifer and Vishny, 1986; and Gugler and Yurtoglu, 2003; Subramanian and Devis 2011. Also, the significance of institutional investors' estimates imply that powerful institutional investors exert influence on dividend payouts. Mehrani *et al*, 2011; Allen et al, 2000; Szilagyi and Renneboog, 2007; Short *et. al*, 2002 collaborate that. Additionally, a positive association between the number of independent directors and dividend payouts is predicated as larger boards have more independent directors and, thus, more dividend payments. In contrast, the findings indicate that directors' ownership is not significantly associated with dividend payouts. It may be because directors have a smaller percentage of ownership and as a result, they cannot influence the dividend behaviour of their firms.

This evidence is in support of Jensen (1986) which suggests that managers are reluctant to pay out dividends, but prefer to retain cash flow for their perquisites. It also shows that dividend decreases as the managers have more control in the firms (Eckbo and Verma, 1994). Short *et al* (2002), Chen, Chen and Wei (2003); and Farinha (2003) document a similar negative relationship between managerial ownership and dividend payouts.

The system GMM estimator gives more precise estimates and most importantly corrects for endogeneity problem associated with the relationship between dividend payouts and corporate governance. A recurring concern in previous studies on the association between them is the potential presence of the endogeneity (John and Knyazeva, 2006; Cice, Kale and Ryan, 2006; Jiraporn *et al* 2011). A further diagnostic Sargan test on the model reveals that the model is successful in relating the explanatory variables to the dependent variable (dividend payout). Also, the diagnostic tests indicate that the instruments used to check the endogeneity problem are valid and strictly orthogonal with the regression disturbance term (evidence from the Sargan test's result). In addition, the autocorrelation tests show there is no second order serial correlation problem and therefore the lags of the dependent variable and other variables used as instruments are strictly exogenous, thus good instruments.

Finally, the empirical results of the thesis indicate that a significant positive relationship exists between CG and DPs of Nigerian corporate firms. These findings are consistent with La Porta *et al*, 2000; Allen *et al*, 2000; Farinha, 2003; Mitton, 2004; Byme and O'Connior, 2012; Pan, 2007; Jiraporn *et al*, 2011; Sawicki, 2005 and Mehrani *et al*, 2011. In contrast, the results do not support Officer, 2007; Neilsen, 2005; John and Knyazeva 2006; De Cesari, 2009 and Denis and Osobov, 2008. The differential may be as a result of the superior estimation technique (SYS GMM) that the research employed, which addressed the endogeneity problem in the data (previous studies neglected it). In addition, most of the past studies were based on advanced economies and not on developing countries like Nigeria. However, for frontier of knowledge, it disaggregates the relationship between CG and DPs into size and mode of operations.

5.6.2: Size Dimension of the Relationship between Corporate Governance and Dividend Payouts.

The size dimension of both small and large firms is reported in Table 5.4. Firms were categorised into small (38) and large (63) based on their total assets. The tested hypothesis is whether the relationship between corporate governance and dividend payouts differs by firm size or not. Generally, F statistics are relatively significant, but the estimates of these tests are high in large firms compared to small firms. It is observed that more on average; less than 20% of the variations in dividend payouts are explained by a 1% change in corporate governance of small firms, that is, their degree of goodness of fit between the explanatory variables and the regressand is poor. The variables with 99% statistical significance are board size, number of independent directors, institutional investors, total assets and the controlled variables of smaller firms. Conversely, more than 60% of the variations in dividend payouts is explained by a 1% change in corporate governance of large firms. Also, F statistic of large firms is higher both in magnitude and significance than those of small firms.

The Lagrangian Multiplier (LM) test was used to test the null hypothesis that the pooled regression is better than the panel, the significant LM values show that panel models are preferred to the classical pooled. Also, judging by the low value of the Hausman test, the random effect model is preferred. Additionally, it is found that a strong positive relationship exists between corporate governance and dividend payments in term of size of larger firms while a negative relationship is found among small firms. Also, the coefficients of all the acid tests of large firms are higher than those of small firms. That implies that large firms distribute more dividend than small ones. This is in line with Kouki and Guizan (2009) and also has been found in Fama and French (2001); Grullion and Michealy (2002) and Mehrani *et al* (2011). Also, the results are consistent with Eddy

and Seifert (1988) and Redding (1997) which argue that large firms pay large dividends to reduce agency costs than small firms. However, Gugler and Yurtoglu (2003) and Farinha (2003) showed that dividend payouts are negatively associated with firm size.

The differential dividend payment of large and small firms may be due to economies of scale that large firms enjoy. Also, large firms have better access to debt than small firms (Marsh, 1982; Baskin, 1989, Chang and Rhee, 1990 and Adedeji, 1998). Consequently, they are likely to have fund to undertake projects with positive net present values and thereby make more profits that can enhance high dividend. On the other hands, small firms may pay low or zero dividends because they need finance for growth or investment opportunities instead of distributing dividends. It can be inferred that the relationship between CG and DPs was positive in large firms and negative in small firms.

5.6.3: Sectoral Dimension of the Relationship between Corporate Governance and Dividend Payouts.

One of the objectives of this study is to examine if sectoral classification imparts on the relationship between corporate governance and dividend payouts. The dataset is classified into 12 sub-sectors: agriculture, (6); automobile (6); building, (8); brewery, (6); chemical/paints, (9); conglomerates, (9); construction, (6); food and beverages, (17); healthcare, (11); industrial/domestic products, (10); petroleum, (9) and printing/publishing, (4) sub-sectors. Given that corporate governance is not the sole factor determining dividend payouts in Nigeria, two control variables are introduced: these are gross earnings and profits after tax. The empirical results reveal that there is a significant and positive relationship between board size, institutional investors, and number of independent directors, gross earnings, profits after tax and dividend payouts. In contrast,

a significantly negative relationship exists between directors' shareholding and dividend payment.

Generally, the 12 estimated sectoral equations depict that the equation is well specified as their Wald/F statistics values are significant. It is evidenced in the empirical findings that petroleum/marketing, conglomerate, food & beverage, brewery and industrial/domestic products sub-sectors, pay higher dividends than construction, agriculture, healthcare, publishing/printing, packaging and automobile sub-sectors.

Evidently, that lagged (previous) dividend payout has a significant and positive effect on dividend payouts. This shows that the dividend payout in the previous year plays a vital role in determining the current year dividend payout in Nigeria. The results also indicate that board size, number of independent directors and institutional shareholding of petroleum/marketing, conglomerate, food & beverage, brewery and industrial/domestic products sub-sectors positively and significantly determined dividend payouts. The implication is that, when board size, number of independent directors and percentage of institutional investors increase respectively; they influence these sub-sectors to pay dividend. In contrast, an increase in directors' shareholding will lead to a decrease in dividend per share. Based on the empirical findings, the negative relationship of board size, institutional investors, the number of independent directors and directors' shareholding with dividend payouts in construction, agriculture, health care, publishing/printing, packaging and automobile sub-sectors implies that the shareholders of the firms in these sub-sectors are not protected against expropriation of their management. Consequently, their firms' values and wealth are greatly at stake.

Overall, the diagnostic Sargan test on the twelve equations reveals that the equations successfully related the explanatory variables to the dependent variable (dividend payout). Also, the diagnostic tests indicate that the instruments used to check the endogeneity problem are valid and strictly orthogonal with the regression disturbance term (evidence from the Sargan test's result). In addition, the autocorrelation tests show there is no second order serial correlation problem and therefore the lags of the dependent variable and other variables used as instruments are strictly exogenous, thus good instruments.

The reported results infer that the link between corporate governance and dividend payouts differs by sector of operations. This may be due to risk exposure, sectoral diversification factors, operational and financial activities all of which could affect dividend payment. These findings are consistent with the conclusions of Baker, Farrelly and Edelman (1985) Horace (2002), Kapoor (2009). Alzomaa and Al-Khadhiri (2013) also posit that a firm's mode of operations influences its dividend payouts. Conclusively, the relationship between CG and DPs was positive in petroleum, conglomerate, food and beverage, brewery and building sub-sectors respectively while it is negative in construction, agriculture, healthcare, industrial/domestic products, chemical/paints, printing and automobile sub-sectors respectively.

CHAPTER SIX

SUMMARY, CONCLUSION AND RECOMMENDATIONS

6.1: Summary

This research work was carried out to examine the impact of corporate governance on dividend payouts of 101 non-financial quoted firms in Nigeria between 1995 and 2012. The introduction of the study focuses on the problem statement as well as the objectives; it offered tests for two hypotheses about the relationship between corporate governance and dividend payouts in Nigeria; it outlined the scope of the thesis as well as its organisation. Background to the study is presented in chapter two. The profile of the Nigerian corporate sector was highlighted; the performance indicators, corporate governance mechanism, legal framework and institutional framework respectively were also outlined. Relevant past studies were reviewed based on theoretical, methodological and empirics in chapter three. It reviewed the relationship between dividend payout and corporate governance indicators; the relationship based on size dimension and sectoral classification respectively. Theoretical framework and methodology formed the nucleus of chapter four. The modified agency model of Sawicki (2009) was adapted for the thesis to suit the Nigerian context with the dynamic panel model as the estimation technique.

In analysing the impact of corporate governance on dividend payouts (objective one), three equations were estimated while five estimation techniques were employed: pooled (OLS), fixed effect (FE), random effect (RE), difference generalised method of moments (Diff-GMM) and system generalised method of moments (SYSGMM). Four governance indicators: Board sizes, institutional investors, the number of independent directors and

directors' shareholding were the regressors while profits after tax and gross earnings were controlled for. The empirical findings of the thesis indicate a positive association between corporate governance and dividend payment. This means that, previous dividend, board size, number of independent directors, institutional investors; profits after tax and gross earnings of firms are the major drivers of corporate decisions and consequently dividend payouts in Nigeria. Similarly, the second objective was achieved as the size equation was analysed. The results indicated that the relationship between CG and DPs is positive in large firms, while it is negative in small firms. Consequently, the relationship between corporate governance and dividend payouts are positive and significant; it also differed by firm size and modes of operations.

Additionally, it was discovered that the link between CG and DPs is positive. The relationship was positive in only conglomerate, building/materials, petroleum, brewery, food and beverage and automobile/tyres sub-sectors respectively while it was negative in healthcare, industrial/domestic products, chemical/paints, printing/publishing, construction and agriculture sub-sectors respectively. Chapter five features the above.

It is evident in the probability of Wald/F statistic that the variables used were jointly significant while Sargan test was insignificant, indicating the validity of the instruments used in the analysis. In chapter six, policy implications were suggested to the Nigerian government, regulatory authorities, Boards of directors, shareholders and the general public on how the corporate sector could tap its potentials for macroeconomic growth. Finally, limitations of the study as well as suggestions for further studies were outlined.

6.2: Conclusion

This study contributes to the ongoing debate on the relationship between corporate governance and dividend payouts of corporate firms. The theoretical foundation of the thesis is an agency theory with its two hypotheses: outcome hypothesis and substitution hypothesis. The outcome hypothesis states that strong (weak) corporate governance makes firms pay high (low) dividend; while conversely, substitution hypothesis suggests that firms with weak corporate governance pay high dividend as a cover up of their lapses. Three equations were estimated with pooled as well as static regression and dynamic panel. The empirical results revealed that dividend behaviours of Nigerian corporate firms depended on ownership structure, board size, firm size, sectoral classification, gross earnings and profits after tax. The results are robust as it attenuated endogeneity bias via system GMM as against static OLS estimators used in previous studies.

The empirical results demonstrated a positive relationship between corporate governance and dividend payouts; suggesting that corporate governance does matter in the policies of the Nigerian corporate sector. The evidence is in agreement with the proposition of the outcome hypothesis, where shareholders of firms with good governance force managers to pay more cash as dividends rather than allowing the likelihood of their expropriation. They reveal the impact of each indicator of corporate governance on dividend payouts of Nigerian firms. The results are in support of previous studies of La Porta *et al*, 2000; Allen *et al*, 2000; Farinha, 2003; Mitton, 2004; O'Connior *et al*, 2006; Pan, 2007; Jiraporn *et al*, 2010; Sawicki, 2009 and Mehrani *et al*, 2011. The findings are quite distinct from previous studies: Officer, 2006; Heilsen, 2006; Kose *et al*, 2006; De cesari,

2009 and Devis, 2011 primarily because most of them could not address endogeneity problems in their analyses as a result of the estimation techniques they employed, or perhaps level of development of capital markets of the sampled economies.

The effects of size and sectoral classification on dividend decisions of firms were also analysed. The study proved that size played an important role in dividend policies of the quoted firms and that irrespective of the sub-sectors, corporate governance imparts firms' dividend behaviours. The relationship between CG and DPs was positive in large firms but negative in small firms. Also, the relationship between CG and DPs was positive in petroleum, conglomerate, food and beverage, brewery and building sub-sectors respectively, while it was negative in construction, agriculture, healthcare, industrial/domestic products, chemical/paints, printing/publishing and automobile//tyres sub-sectors respectively.

It was discovered that large firms paid higher dividends than small firms, which might be due to economies of scale that large firms reap in their operations. In addition, large firms tend to be more diversified, less risky, have more access to finance and perhaps less investment opportunities; therefore, making them more willing to pay higher dividends. This is in line with Kouki and Guizan (2009) and also has been found in Fama and French (2001); Grullion and Michealy (2002) and Mehrani *et al* (2011). However, Gugler and Yurtoglu (2003) and Farinha (2003) show that dividend payouts are negatively associated with firm size. Also, the results corroborate that of Eddy and Seifert (1988) and Redding (1997) which argue that large firms pay higher dividends to reduce agency costs than small firms.

Further, the reported results infer that the link between corporate governance and dividend payouts differs by sectoral classification; and are consistent with the conclusions of Baker, Farrelly, and Edelman (1985) Horace (2002), Kapoor (2009) and Alzomaa *et.al* (2013); Sawicki, (2009); Subramaniam and Susela, (2011). Nevertheless, the study does not support an agency theory assumption of principal-agent conflicts. This is as a result of the high concentration of shareholding which is the feature of the Nigerian corporate sector, where managers/agents have little room to exercise corporate discretions.

The frontier of knowledge in this thesis is one; it extends the theoretical prediction of the agency theory as it included size dimension and sectoral classification of corporate firms in the modified Sawicki (2009) model. Two, it also made use of the system generalised method of moments, (a superior estimator to ordinary least squares employed by past studies) as a means of accommodating firm level characteristics; and addressing endogeneity problems that surfaced in the dataset. Lastly, it disaggregates the relationship between CG and DPs into firm size and mode/sector of operations.

6.3: Recommendations

On the basis of the empirical findings of this thesis, the following policy measures are recommended to the various stakeholders of the Nigerian corporate sector.

- It is a known fact that financiers expect returns on investment at the end of any financial year so that they can be better-off and consequently, the wealth of the society could be sustained through economic growth and development.
- The results of the thesis bring to limelight the urgency for Boards of directors of agriculture, healthcare, industrial/domestic products, chemical/paints, printing and

automobile sub-sectors respectively to maintain a regular and steady increase in dividend payment of their firms so as to improve shareholders' welfare.

- Additionally, Boards of directors, significantly contribute to all stages of the strategic process from formulation to final implementation.
- In addition, Nigerian capital market regulatory authorities and other policy makers should give requisite attention to the growth and innovations of small firms in their policy formulations so that they can pursue wealth maximisation of their shareholders as they grow. Also, they should be encouraged to have sizable and a strong institutional investor base that can lobby them to change their dividend behaviours in favour of their shareholders.
- Nigerian corporate firms should disclose more governance information in their annual reports and statements of accounts so that prospective researchers and investors (local and foreign) could evaluate them adequately for more rigorous research and portfolio management respectively.

6.4: Limitations of the Study

The data set was 101 non-financial firms, selected from 12 sub-sectors listed on the Nigerian Stock Exchange based on availability of required data covering 1995 to 2012. All information was collected from the annual accounts and reports of sampled firms, the ANALYSTS Data and Resources Limited and various issues of Nigerian Stock Exchange Factbooks. There was a strong element of sample bias in the study as only companies that reported relevant information of interest were included in the analysis. Although information from annual reports were expected to be objective, but available information was affected by the level of disclosure in the annual reports & accounts of selected firms; which might be directly correlated to the disclosure standards practised by each firm.

However, this limitation notwithstanding, the study remains very relevant for both theoretical and policy contributions.

6.5: Suggestions for Further Studies

Based on the limitations observed in carrying out this research, oncoming researchers could improve the thesis for frontier of knowledge. Extension of the thesis is possible if more governance indicators are added to the estimated equations to provide greater support on the association between corporate governance and dividend payouts in Nigeria. Also, further studies could expand the coverage for rigorous analyses. The study used only internal mechanism of a CG while most of the past studies used external mechanism. It is suggested that the combination of the two (internal and external CG mechanisms) as regressors could be looked at in future research.

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APPENDICES

A1: LIST OF FIRMS USED

S/N	NAME OF FIRM	INDUSTRIES	S/N	NAME OF FIRM	INDUSTRIES
1	AFPRINT NIGERIA PLC	AGRICULTURE	52	ACADEMY PRESS PLC	PRINTING AND PUBLISHING
2	GROMMAC INDUSTRIES PLC	AGRICULTURE	53	LEARN AFRICA (LONGMAN NIG.) PLC	PRINTING AND PUBLISHING
3	LIVESTOCK FEEDS PLC	AGRICULTURE	54	ETERNAL OIL & GAS CO. PLC	PETROLEUM MARKETING
4	THE OKOMU OIL PALM PLC	AGRICULTURE	55	LAFARGE WAPCO PLC (WEST AFRICAN PORTLAND CEMENT)	BUILDING MATERIAL
5	BEWAC (NIG). PLC	AUTOMOBILE AND TYRE	56	PZ CUSSONS NIGERIA PLC (PZ INDUSTRIES)	CONGLOMERATES
6	INCAR NIGERIA PLC	AUTOMOBILE AND TYRE	57	GUINNESS NIGERIA PLC	BREWERIES
7	INTRA MOTORS PLC	AUTOMOBILE AND TYRE	58	UNION DICON SALT PLC	FOOD BEVERAGES & TOBBACO
8	R T BRISCOE NIGERIA PLC	AUTOMOBILE AND TYRE	59	JOHN HOLT PLC	CONGLOMERATES
9	REITZCOT NIGERIA CO. PLC	AUTOMOBILE AND TYRE	60	PAINTS & COATINGS MANUFACTURERS PLC	CHEMICAL AND PAINTS
10	GOLDEN GUINEA BREWERIES PLC	BREWERIES	61	A.G. LEVENTIS (NIG). PLC	CONGLOMERATES
11	INTERNATIONAL BREWERIES PLC	BREWERIES	62	DN TYRE & RUBBER PLC (DUNLOP NIGERIA PLC)	AUTOMOBILE AND TYRE
12	JOS INTERNATIONAL BREWERIES PLC	BREWERIES	63	NIGERIAN BREWERIES PLC	BREWERIES
13	PREMIER BREWERIES PLC	BREWERIES	64	ASHAKA CEMENT PLC	BUILDING MATERIAL
14	CEMENT CO. OF NORTHERN (NIG). PLC	BUILDING MATERIAL	65	BENUE CEMENT COMPANY PLC	BUILDING MATERIAL
15	NIGERIAN ROPES PLC	BUILDING MATERIAL	66	C F A O (NIG). PLC	CONGLOMERATES
16	NIGERIAN WIRE AND CABLE PLC	BUILDING MATERIAL	67	S C O A (NIG). PLC	CONGLOMERATES
17	NIGERIAN WIRE IND. PLC	BUILDING MATERIAL	68	U A C N PLC	CONGLOMERATES
18	AFRICAN PAINTS (NIG). PLC	CHEMICAL AND PAINTS	69	G. CAPPA PLC	CONSTRUCTION
19	BERGER PAINTS PLC	CHEMICAL AND PAINTS	70	JULIUS BERGER (NIG). PLC	CONSTRUCTION
20	CHEMICAL & ALLIED PRODUCTS (CAP) PLC	CHEMICAL AND PAINTS	71	CADBURY NIGERIA PLC	FOOD BEVERAGES & TOBBACO
21	D.N. MEYER PLC (HAGEMEYER NIGERIA LIMITED)	CHEMICAL AND PAINTS	72	FLOUR MILLS OF NIGERIA PLC	FOOD BEVERAGES & TOBBACO
22	INTERNATIONAL PAINTS WEST AFRICA (IPWA) PLC	CHEMICAL AND PAINTS	73	NESTLE NIGERIA PLC (FOOD SPECIALTIES NIG. LTD)	FOOD BEVERAGES & TOBBACO
23	NIGERIA-GERMAN CHEMICALS (NIGERIAN HOECHST) PLC	CHEMICAL AND PAINTS	74	NIGERIAN BOTTLING COMPANY PLC	FOOD BEVERAGES & TOBBACO
24	PREMIER PAINTS PLC	CHEMICAL AND PAINTS	75	NIGERIAN TOBACCO COMPANY PLC	FOOD BEVERAGES & TOBBACO
25	CHELLARAMS PLC	CONGLOMERATES	76	UTC NIGERIA PLC	FOOD BEVERAGES & TOBBACO

26	ARBICO PLC	CONSTRUCTION	77	SMITHKLINE BEECHAM NIGERIA PLC	HEALTHCARE
27	CAPPA & D'ALBERTO PLC	CONSTRUCTION	78	FIRST ALUMINIUM NIGERIA PLC	INDUSTRIAL/DOMESTIC
28	COSTAIN (WA) PLC	CONSTRUCTION	79	MOBIL OIL NIGERIA PLC	PETROLEUM MARKETING
29	ROADS (NIG). PLC	CONSTRUCTION	80	AGIP NIGERIA PLC	PETROLEUM MARKETING
30	7-UP BOTTLING COMPANY PLC	FOOD BEVERAGES & TOBBACO	81	CONOIL (NATIONAL OIL) PLC	PETROLEUM MARKETING
31	NATIONAL SALT CO. (NIG). PLC	FOOD BEVERAGES & TOBBACO	82	TOTAL NIGERIA PLC	PETROLEUM MARKETING
32	NORTHERN NIG FLOUR MILLS PLC	FOOD BEVERAGES & TOBBACO	83	UNILEVER NIGERIA PLC (LEVER BROTHERS)	CONGLOMERATES
33	PS MANDRIES & CO. PLC	FOOD BEVERAGES & TOBBACO	84	FORTE OIL (AFRICAN PETROLEUM) PLC	PETROLEUM MARKETING
34	ABOSELDEHYDE LABS. PLC	HEALTHCARE	85	MRS Oil Nigeria PLC (Chevron Oil Nigeria PLC, Texaco Nigeria	PETROLEUM MARKETING
35	CHRISTLIEB PLC	HEALTHCARE	86	OANDO (UNIPETROL NIGERIAN PLC) PLC	PETROLEUM MARKETING
36	EKOCORP PLC	HEALTHCARE	87	PRESCO PLC	AGRICULTURE
37	EVANS MEDICAL PLC	HEALTHCARE	88	GLAXO SMITHKLINE (GLAXO) CONSUMER NIGERIA PLC	HEALTHCARE
38	MAY & BAKER NIGERIA PLC	HEALTHCARE	89	TANTALIZERS PLC	FOOD BEVERAGES & TOBBACO
39	MORISON INDUSTRIES PLC	HEALTHCARE	90	FTN COCOA PROCESSORS PLC	AGRICULTURE
40	NEIMETH INT'L PHARMCEUTICAL (Pfizer Products Limited) PLC	HEALTHCARE	91	DANGOTE FLOUR MILLS PLC	FOOD BEVERAGES & TOBBACO
41	PHARMA-DEKO PLC	HEALTHCARE	92	DANGOTE SUGAR REFINERY PLC	FOOD BEVERAGES & TOBBACO
42	ALUMINIUM EXTRUSION IND. PLC	INDUSTRIAL/DOMESTIC	93	PORTLAND PAINTS & PRODUCTS (NIG) PLC (Sandtex)	CHEMICAL AND PAINTS
43	ALUMINIUM MANUFACTURING COMPANY. OF NIG. (ALUMACO) PLC	INDUSTRIAL/DOMESTIC	94	FIDSON HEALTHCARE PLC	HEALTHCARE
44	B.O.C. GASES PLC (Industrial Gases Nig. Ltd.)	INDUSTRIAL/DOMESTIC	95	BIG TREAT PLC	FOOD BEVERAGES & TOBBACO
45	NIG. YEAST & ALCOHOL (MAN).(NIYAMCO) PLC	INDUSTRIAL/DOMESTIC	96	MULTIVERSE RESOURCES PLC	INDUSTRIAL/DOMESTIC
46	NIGERIAN ENAMELWARE PLC	INDUSTRIAL/DOMESTIC	97	BECO PETROLEUM PRODUCTS PLC	PETROLEUM MARKETING
47	OLUWA GLASS COMPANY PLC	INDUSTRIAL/DOMESTIC	98	DANGOTE CEMENT PLC	BUILDING MATERIAL
48	VITAFOAM (NIG). PLC	INDUSTRIAL/DOMESTIC	99	TRANSNATIONAL CORPORATION OF NIG PLC	CONGLOMERATES
49	VONO PRODUCTS PLC	INDUSTRIAL/DOMESTIC	100	HONEYWELL FLOUR MILLS PLC	FOOD BEVERAGES & TOBBACO
50	DAILY TIMES PLC	PRINTING AND PUBLISHING	101	MULTI-TREX INTERGRATED FOODS PLC	FOOD BEVERAGES & TOBBACO
51	UNIVERSITY PRESS PLC	PRINTING AND PUBLISHING			

A2: REPORT

SIZE OF FIRM		DIV	NO OF DIRECTORS	INST	INDDIR	DIRS	GEN	PAT
SMALL	N	426	383	426	362	385	411	35
FIRMS	Minimum	0.00	3	0.00	-0.20	0.00	277000.00	-523657000.0
	Maximum	3.75	17	97.45	0.90	468.12	72154601000.00	2538846000.0
	Mean	0.1078	8.47	40.7780	0.3433	2.5914	710525880.7786	13587986.072
	Std. Dev.	0.23196	2.188	26.06375	0.24301	29.30162	3611965073.87386	170337112.0438
LARGE	N	810	720	810	712	757	807	71
FIRMS	Minimum	0.00	3	0.00	-0.33	0.00	64957000.00	-20434762000.0
	Maximum	10.00	21	100.59	0.92	430.52	673181997000.00	106605409000.0
	Mean	0.6360	10.17	47.8886	0.4483	1.9327	27265926563.8166	1693944011.267
	Std. Dev.	1.44215	2.655	26.00380	0.22684	24.52308	56114918158.08631	6078142225.4110
TOTAL	N	1236	1103	1236	1074	1142	1218	106
	Minimum	0.00	3	0.00	-0.33	0.00	277000.00	-20434762000.0
	Maximum	10.00	21	100.59	0.92	468.12	673181997000.00	106605409000.0
	Mean	0.4539	9.58	45.4379	0.4129	2.1547	18305114018.0624	1129633615.528
	Std. Dev.	1.20165	2.631	26.23269	0.23755	26.22046	47409313990.80547	5016527246.2517

A3: DESCRIPTIVE STATISTICS

SECTOR		DVDP	NOD	INST	INDDI	DIRS	GEN	PAT	TA
AGRICULTURE	N	64	51	64	50	59	64	54	64
	Minimum	0.00	5	.00	0.00	0.00	69674000.00	-618407000.00	0.00
	Maximum	1.00	14	90.07	0.85	430.52	11251521000.00	8954343000.00	31054673000.00
	Mean	0.1878	8.90	53.9194	0.4478	19.6765	3261702093.7500	478874296.2963	3930033593.7500
	Std. Deviation	0.26183	2.563	28.40980	0.27306	85.38559	2820478020.65150	1344021404.2011	5398360232.81450
AUTOMOBILE AND TYRE	N	67	63	67	53	54	66	61	67
	Minimum	0.00	5	0.00	0.00	0.00	277000.00	-11143551000.00	19625000.00
	Maximum	0.50	16	62.58	0.75	0.53	21980201000.00	628017000.00	20506841000.00
	Mean	0.0591	9.25	35.8806	0.4214	0.1871	3746575287.8788	-148385098.3607	3172557716.4179
	Std. Deviation	0.11394	2.552	20.44886	0.17868	0.19810	5473341568.57068	1478167950.3722	4746535048.85405
BREWERIES	N	70	62	70	62	63	69	61	70
	Minimum	0.00	7	0.00	0.14	0.00	65890000.00	-523657000.00	0.00
	Maximum	10.00	17	83.00	0.80	468.12	252674213000.00	38050756000.00	253633629000.00
	Mean	1.4804	12.24	55.4004	0.5019	7.4966	33931584884.0580	5704997590.1639	31925677042.8571
	Std. Deviation	2.46137	2.584	14.32678	0.19528	58.96942	56725065688.27742	9450599920.2620	50714869870.59705
BUILDING MATERIAL	N	106	93	106	93	100	103	79	106
	Minimum	0.00	3	0.00	0.08	0.00	64957000.00	-3401129000.00	0.00
	Maximum	2.85	21	100.59	0.85	2.65	298454068000.00	106605409000.00	673666223000.00
	Mean	0.2020	10.33	61.2064	0.4795	0.1942	17142481699.0291	2834634696.2025	31338881830.1887
	Std. Deviation	0.43972	2.946	27.15131	0.21288	0.40193	46362789864.77715	13836122074.259	96527346173.46992
CHEMICAL AND PAINTS	N	124	107	124	107	119	124	111	124
	Minimum	0.00	5	0.00	-0.14	0.00	42579000.00	-627069000.00	0.00
	Maximum	3.75	16	78.00	0.78	15.63	5231330000.00	1005282000.00	8375830000.00
	Mean	0.2410	8.16	35.6233	0.2916	0.6053	1149494629.0323	45057963.9640	1128632008.0645
	Std. Deviation	0.63145	2.057	23.60177	0.20515	2.26556	1068534236.34576	201741824.45266	1307693423.65929
CONGLOMERATES	N	125	110	125	109	113	122	112	125
	Minimum	0.00	5	0.00	-0.30	0.00	361214000.00	-1617263000.00	0.00
	Maximum	2.00	17	89.00	0.78	16.30	80974071000.00	10202167000.00	122975593000.00
	Mean	0.2497	9.99	46.2210	0.4427	0.3671	18253040286.8852	1212266955.3571	16953958912.0000
	Std. Deviation	0.40311	2.572	27.76830	0.18242	1.68341	18192395253.1273	1919183031.4008	23025854720.28346

CONSTRUCTION	N	74	69	74	69	74	73	69	74
	Minimum	0.00	5	0.00	0.00	0.00	45777000.00	-1928098000.00	78687000.00
	Maximum	2.40	14	96.83	0.88	90.56	201565276000.00	4874513000.00	179034164000.00
	Mean	0.2733	9.16	50.8735	0.4981	2.5551	18119054342.4658	263732159.4203	18660176500.0000
	Std. Deviation	0.40956	2.399	27.24346	0.24042	12.13492	42080927504.96192	935647488.89888	40867676913.53178
FOOD BEVERAGES & TOBBACO	N	173	156	173	147	155	168	161	173
	Minimum	0.00	6	0.00	0.00	0.00	13437000.00	-2752268000.00	28816000.00
	Maximum	2.00	17	95.00	0.92	333.45	310144899000.00	21871047000.00	232857369000.00
	Mean	0.3612	10.35	49.5331	0.4688	2.2479	29875009273.8095	1968011559.0062	22528808427.7457
	Std. Deviation	0.49392	2.187	24.85281	0.17609	26.77691	47343454041.27338	3752417822.4184	34293397981.02469
HEALTHCARE	N	122	109	122	109	115	121	82	122
	Minimum	0.00	5	0.00	-0.33	0.01	85369000.00	-242284000.00	0.00
	Maximum	2.27	15	62.13	0.75	12.71	25308159000.00	2461395000.00	21792721000.00
	Mean	0.1784	9.06	29.3370	0.1711	0.4052	2391061793.3884	193863207.3171	2621167967.2131
	Std. Deviation	0.30530	2.157	19.76417	0.19840	1.19928	3921622879.81916	455175049.40681	3622756102.5799
INDUSTRIAL/DOMESTIC	N	129	118	129	117	125	129	116	129
	Minimum	0.00	4	0.00	0.00	0.00	52121000.00	-1014720000.00	82990000.00
	Maximum	0.60	14	97.45	0.90	24.03	14520780000.00	518850000.00	84935749000.00
	Mean	0.1285	7.84	49.8689	0.4390	0.6535	2095350364.3411	38452336.2069	2473250992.2481
	Std. Deviation	0.14464	1.867	28.31785	0.25337	3.14747	2818116074.71307	193605474.30272	7707199929.86555
PETROLEUM/ MARKETING	N	123	109	123	107	111	120	107	123
	Minimum	0.00	3	0.00	0.00	0.00	180244000.00	-20434762000.00	0.00
	Maximum	10.00	18	84.00	0.89	1.00	673181997000.00	14374966000.00	515063788000.00
	Mean	1.8517	10.76	48.2207	0.5537	0.0801	70013093158.3333	1107928130.8411	36242054333.3333
	Std. Deviation	2.59637	2.909	24.11406	0.17548	0.18303	102182107150.7332	3650617075.4344	75025054752.78662
PRINTING AND	N	59	56	59	51	54	59	56	59

A4: SECTORAL PANEL REGRESSION RESULTS 1

	AGRICULTURE			AUTOMOBILE/TYRES			BREWERIES			BUILDING MATERIALS			CHEMICAL/PAINTS			CONGLOMERATES		
	P	F	R	P	F	R	P	F	R	P	F	R	P	F	R	P	F	R
D	0.046**	0.024	0.046**	-0.007	-0.003	-0.007	-0.011	0.075	-0.011	-0.005	-0.009	-0.004	0.020	0.009	0.021	-0.018	0.010	0.00
T	0.004	0.012	0.004	0.00002	0.0001	0.00002	-0.005	-0.037*	-0.005	-0.00006	-0.001	-0.0001	0.004*	0.0004	0.003	-0.005***	0.001	-0.0
S	-0.001	-0.001	-0.001	0.170	0.742***	0.170	0.0001	0.002	0.0001	0.566***	0.641***	0.580***	0.002	-0.015	-0003	0.057	-0.016	0.00
DDIR	-0.092	-0.322	-0.092	0.066	0.319***	0.066	-0.770	2.209	-0.770	0.368**	0.467**	0.394**	0.076	0.332	0.081	0.160	0.040	0.15
T_L	-1.116	-1.914	-1.116	0.396	-0.080	0.396	5.392	10.082***	5.392	-0.319	2.159**	-0.287	89.960***	73.091***	88.618***	5.675***	6.641***	6.19
N_L	-0.186	-0.277	-0.186	0.092***	0.017	0.092***	1.297***	1.076	1.297***	0.195***	0.051	0.191***	0.045	0.249	0.049	0.089	-0.065	-0.0
	12.832	21.793	12.832	-4.833	0.506	-4.833	-66.086	-113.479***	-66.086	1.415	-22.841**	1.105	-928.083***	-755.792***	-914.286***	-58.933***	-67.851***	-63.
mber Obs	42	42	42	47	47	47	54	54	54	67	67	67	94	94	94	95	95	95
tistics/ ldchi2 value)	1.92 (0.1048)	0.94 (0.4838)	11.53 (0.0734)	3.30 (0.0098)	5.19 (0.0006)	19.81 (0.0030)	8.37 (0.0000)	7.43 (0.0000)	50.22 (0.0000)	10.89 (0.0000)	12.77 (0.0000)	65.13 (0.0000)	14.52 (0.0000)	8.56 (0.0000)	82.40 (0.0000)	13.16 (0.0000)	8.06 (0.0000)	45. (0.0
ared	0.2477	0.1186	0.2477	0.3312	0.0000	0.3312	0.5165	0.4831	0.5165	0.5214	0.2978	0.5211	0.5003	0.4520	0.5001	0.4730	0.3227	0.37
usman		4.06 (0.6684)			-4.82 (0.000)			-39.74 (0.000)			-3.32 (0.001)			26.03 (0.0002)			19.59 (0.0033)	
l tistics	0.83 (0.5396)			15.69 (0.0000)			12.86 (0.0000)			3.85 (0.0019)			2.72 (0.0106)			6.88 (0.0000)		

Note: P refers to pooled regression
F is fixed effect
R means random effect

PUBLISHING	Minimum	0.00	5	0.00	-0.20	0.00	60399000.00	-401725000.00	77419000.0
	Maximum	1.00	13	60.00	0.82	0.43	4632579000.00	709486000.00	5355030000.0
	Mean	0.1717	9.07	24.8871	0.2156	0.1820	1023057152.5424	73238267.8571	1323452152.542
	Std. Deviation	0.17969	1.650	15.13695	0.24920	0.13077	1028331987.10702	171306616.83452	1396088983.1885
TOTAL	N	1236	1103	1236	1074	1142	1218	1069	123
	Minimum	0.00	3	0.00	-0.33	0.00	277000.00	-20434762000.00	0.0
	Maximum	10.00	21	100.59	0.92	468.12	673181997000.00	106605409000.00	673666223000.0
	Mean	0.4539	9.58	45.4379	0.4129	2.1547	18305114018.0624	1129633615.5285	15156167286.407
	Std. Deviation	1.20165	2.631	26.23269	0.23755	26.22046	47409313990.80547	5016527246.2519	44553049343.2982

A5: SECTORAL PANEL REGRESSION RESULTS 2

	CONSTRUCTION			FOOD & BEVERAGE			HEALTHCARE			INDUSTRIAL/DOMESTIC			PETROLEUM/MARKETING			PRINTING & PUBLISHI		
	P	F	R	P	F	R	P	F	R	P	F	R	P	F	R	P	F	R
)D	0.024	0.090**	0.024	0.048**	0.036	0.042*	0.015	0.035**	0.027**	-0.007	-0.003	-0.002	-0.264***	0.058	0.020	0.012	-0.002	0.0
ST	-0.003	-0.005	-0.003	0.004*	-0.001	0.0003	0.002*	0.002	0.002	-0.001	0.00003	0.00005	0.006	0.014	0.013	-0.005*	-0.008**	-0
RS	-0.003	-0.003	-0.003	0.099	0.191	0.131	-0.006	0.003	0.003	-0.004	-0.005	-0.005	-2.918*	-1.345	-1.423	-0.448**	-0.163	-0
DDIR	-0.038	-0.070	-0.038	-0.112	-0.471	-0.306	-0.061	-0.038	-0.055	0.093	-0.009	0.004	0.415	-2.204	-1.874	0.260	0.074	0.2
T_L	12.339***	10.290***	12.339***	-1.354	1.139	0.779	21.378***	30.209***	25.296***	12.920***	9.139**	9.411***	0.086	0.017	0.021	20.245**	25.881**	20
L	0.146**	0.277**	0.146**	0.224***	0.149	0.134	-0.055	-0.158	-0.117**	-0.002	-0.101**	-0.085**	0.962**	1.144**	1.090**	0.008	-0.0003	0.0
	-128.451***	-109.006***	-128.451***	11.517	-12.956	-9.426	-219.993***	-310.359***	-259.967***	-133.004***	-93.156**	-96.13***	-6.509	-10.391*	-9.573*	-208.592**	-266.452**	-20
mber Obs	64	64	64	134	134	134	69	69	69	105	105	105	91	91	91	50	50	50
tistics/ aldchi2 value)	10.51 (0.0000)	6.36 (0.0000)	63.08 (0.0000)	4.03 (0.0010)	2.28 (0.0406)	12.79 (0.0464)	16.12 (0.0000)	10.52 (0.0000)	79.86 (0.0000)	4.07 (0.0011)	1.74 (0.1200)	10.52 (0.1043)	3.18 (0.0073)	0.98 (0.4416)	6.76 (0.3440)	7.47 (0.0000)	3.06 (0.0147)	44 (0.
ared	0.5253	0.4590	0.5253	0.1601	0.0611	0.0937	0.6094	0.5929	0.5994	0.1995	0.0434	0.0644	0.1853	0.0334	0.0553	0.5104	0.2528	0.5
usman		-16.53 ()			4.73 (0.5786)			6.67 (0.3528)			1.88 (0.9304)			1.46 (0.9620)			34.07 (0.0000)	
tistics	1.59 (0.1792)			5.75 (0.0000)			3.34 (0.0020)			5.56 (0.0000)			9.62 (0.0000)			5.68 (0.0025)		

Note: P refers to pooled regression
F is fixed effect
R means random effect