An Evaluation of Determinants of Dividend Policy of Listed Deposit Money Banks in Nigeria

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Abstract
The practice of earnings management involves altering figures being reported, through the use of the judgmental discretions as allowed by the Generally Accepted Accounting Principle (GAAP). This is, to either mislead the users into believing what is actually not true in respect of the earnings' figures, and hence secure favourable response (like increased demand for the firm's shares); or to influence contractual outcomes which depend on the reported earnings. The paper examines whether dividend pay-out, profitability, tax rate and size influence earnings management of Nigerian listed deposit money banks. The population consists of the fourteen Nigerian listed deposit money banks as at 31st December, 2019 making it a census sampling. The design used for the study is ex-post facto method, as such, the non-survey design is adopted to actualize the research objectives. Secondary source of data collection was used and the data were extracted from the annual reports and accounts of the banks for the period of ten years (2010-2019). STATA was employed as the tool of data analysis. Findings revealed Dividend pay-out, size, profitability and tax rate influence earnings management of deposit banks. Based on the findings, the study concludes banks can manipulate profit in order to pay less tax and then pay dividend despite its liquidity problems and the existence of huge nonperforming loans. The study recommends the sustainability of CBN policy on liquidity position and thresholds regarding payment of dividend.

Keywords: Earnings Management, Size, Dividend Pay-out, Profitability, Tax rate

1.0 Introduction

The financial scandals that rocked the UK and the USA towards the end of the 1990s and the beginning of the 21st century have brought about a major awareness on the need for more transparency and credibility in order to protect shareholders alike. Earnings management, which has always been phenomenon at the core of these scandals, has received considerable attention in accounting literature because it has been a consistent cause of concern among practitioners and regulators, and has become one of the most important challenges confronting corporate governance mechanisms in trying to resolve the negative impact of earnings management on financial reporting.

The practice of earnings management involves altering figures being reported, through the use of the judgmental discretions as allowed by the Generally Accepted Accounting Principle (GAAP), so as to either mislead the users into believing what is actually not true in respect of the earnings' figures, and hence secure

favourable response or to influence contractual outcomes which depend on the reported earnings (Okolie, 2014). From this, it is evident that the practice of earnings management can only be carried out by the managers, on whose shoulders lies the responsibility of reporting the firm's earning figures. Also, looking at agency theory relations, especially the part that explained how manager's interests are at conflict with that of the shareholders, it is clear that managers will always try to influence the contractual outcomes in their favour. This is so because managers are employees of the shareholders and their performance is usually measured using the earnings they reported, and based on it, they receive their rewards.

In Nigeria, the Security and Exchange Commission (SEC) has made it mandatory for public companies to publish and make available their audited financial statements annually which must conform with guidelines, formats, and regulations issued by the apex accounting institution and other regulatory and supervisory agencies. Still, management of corporate organizations often embarks on earnings management in order to increased market value and thus maximizes shareholders' wealth (Ekoja, 2002). The regulatory inconsistency and the choice available in accounting policies have often called for the exercise of judgments in preparing financial statements. The implication of exercising such judgments is that information provided by management which invariably arouses a certain decision by different users may make them to take wrong decision when preparers decide to convey self-serving information (Farouk, 2014).

Dividend policy is one of the major corporate financial decisions that has great impact on the shareholders and the behaviour of the managements because shareholders are interested in dividends, but managers prefer to retain earnings in order to maintain higher control over the firm's resources. Dividend is the rewards to the residual owners of the business in form of return on investment to shareholders. Aminu (2006) posits that the determination of the amount of earnings to be distributed to shareholders and the amount to be retained is the most important aspect of dividend policy.

Dividend pay-out policy is a critical decision as it relates with other financial and investment decision (Abor & Bokpin, 2010). It will not only assist in reducing the agency cost but will also act as a signal to give information to the shareholders about the firm's valuation.

The Nigerian banking sector over the years faced a dwindling dividend pay-out and sometimes zero dividend with some banks been unable to declare dividend due to inconsistent financial performance as well as changes in ownership structure. However, some banks are still believed to be struggling to pay dividends just to impress their shareholders and attract investors. Due to some problems of inconsistent payment of dividends which could reflect some negative image of the banks, the Central Bank of Nigeria was very keen to provide way out among which is to protect the image of the banks as well as provision of protection for the stakeholders. That is why the CBN under the leadership of Sanusi (2010), in a circular sent to lenders and discount houses stated that the amount banks can pay as dividends would depend on their capital levels, statutory reserve requirements and the proportion of non-performing loans.

In deciding firms' dividend pay-out ratio that is, what to pay and what to reinvest, managers must put into consideration certain

factors. Akujuobi (2010) perceived that corporate dividend decision is basically interested in prorating periodic profit after tax between retained earnings and dividends. Such decision is usually a function of many factors. Van Horne (1977) sees these factors to be; needs for ownership control, liquidity status of the firm, legal consideration, investment opportunities, access to capital market, repayment period of debt, and cost of raising additional capital. However, the interaction amongst these factors is very paramount in corporate dividend decisions. Supplementing the above, are corporate profitability, leverage, size and liquidity amongst others. For the purpose of this study, four characteristics are considered. They are; dividend pay-out, size, profitability and tax rate

The size of bank plays a crucial role in the quantum of dividend to be paid to shareholders. The expectation is that, considering the largeness of a bank, it is presumed that it must have exhausted all its potentials within and through diversification which is associated with stability of cash flow, economics of scale and less failure in some areas. In line with the above assertion, larger banks will have enough cash at their disposal from which dividend can be paid. In the quoted deposit money banks in Nigeria, it is observed that banks that are larger in terms of size pay higher dividend compared to the smaller size banks.

Banks' profitability is a significant explanatory variable of dividend pay-out ratio (Mohammed & Joshua, 2006). Scores of studies have shown over time that the more profitable a bank is, the more it is likely to give out a reasonable proportion of its earnings as dividends. A bank that is making losses will not be able to settle its obligations, and the issue of dividend will not arise except if the firm has made enough profit in the past which can be used for satisfying such contemporary needs. In a broader perspective, dividend payment is a product of profitability since profitability begets to dividend. Most studies have documented profitability to be the most important characteristics influencing dividend pay-out of banks.

The main objective of this study is to examine the impact of dividend policy on earnings management of listed deposit money banks in Nigeria. Few questions are raised to achieve the objectives; has bank size any effect on earnings management of deposit money banks in Nigeria? At what level does earnings management depends on the profitability of deposit money banks in Nigeria? To what extent is earnings management dependent on the dividend pay-out of deposit money banks in Nigeria amongst others? The following hypotheses were formulated and tested; Bank size has no significant effect on earnings management of deposit money banks in Nigeria. Profitability has no significant impact on earnings management of deposit money banks in Nigeria. Dividend pay-out has no significant effect on earnings management of deposit money banks in Nigeria. There is no significant effect of tax rate on earnings management of deposit money banks in Nigeria.

2 Review of Related Literature

2.1 Conceptual Framework

The term dividend is derived from the Latin word "dividendum" which means "thing to be divided". According to Davies & Pin (2002) dividend is simply defined as the amount payable to shareholders from profits. Usually, their pay-out are made in cash, but sometimes companies will also distribute stock dividends where by additional shares are distributed to shareholders. Hussany and Mouselli (2010) also defined it as

distribution of profit to shareholders and to business as re-investment. The dividend is not just a source of income for shareholders, but act as indicator to judge the performance of the firm (Al-Malkawi, Raffery & Pillai, 2010).

Earnings management on the other hand, is being viewed by Davidson, Stickney and Weil, (1987) as 'a purposeful intervention in the external financial reporting process, with the intent of obtaining desired levels of earnings by taking deliberate steps within constraint of generally accepted accounting principles to bring about a desired level of reported earnings. Banks manage earnings to reduce the variations in the earnings over a period of time, thus maintaining a consistency in the firm's earnings. It is possible to manage earnings first, by altering the discretionary accruals and secondly by manipulating real operating activities such as providing discounts to temporarily increase sales, over producing to report lower cost of goods and reducing discretionary expenses like Research & Development, advertisement expenditure etc (Zhang 2012).

2.2 Empirical Studies

The study of Farinha and Moreira, (2007) presented direct empirical evidence in support of the hypothesis that dividends play an important role in conveying information on the level of earnings management by companies. Trienvinh and Tranghuyen (2017) found that companies tend to pay higher dividends when profits increase or growth opportunities increase. Ehikioya (2015) investigated the possible impact of dividend policy on the value and performance of firm in developing economics. The findings revealed a significant positive impact of dividend pay-out on the performance of firms, measured as return on the assets and return on equity. Also, the analysis revealed that firm's dividend policy has a significant positive correlation with the firm's profitability, proxy by return on assets. The following study evidenced that dividend pay-out influences earnings management, Edelstein, Liu and Tsang, 2009; Liu, 2011; Jahanzaib, Ali and Sadiq., 2012; Moghri and Galogah, 2013; Aladwan, (2019). Particularly with lower information asymmetry dividend policy determines earnings management (Nguyen & Bui, 2019; He, Lilian, Zaiat, & Zang, 2012). However, the studies of Ajide and Aderemi 2014; Aurangzeb and Dilawer, 2012; and Savov (2006) evidenced that dividend pay-out has no influence on earning management.

Ehsan, Tabassum, Akram and Nasir (2013) using 100 non-financial firms listed Karachi Stock Exchange between the periods of 2007 to 2011. Ordinary least square regression technique has been used to reveal empirical results. The results revealed that profitability is significant and positively related with dividend pay-out. Moreover, size and leverage are negatively related to corporate dividend policy. Uwuigbe (2013) examined the effects of ownership structure and financial leverage on the dividend pay-out of firms operating in Nigeria using the judgmental sampling techniques. Findings revealed that there is a significant negative relationship between financial leverages and the dividend pay-out of firms.

Uwuigbe, Jafaru and Ajayi (2012) investigated the relationship between the financial performance and dividend pay-out among listed firms' in Nigeria. It also looked at the relationship between ownership structure, size of firms and the dividend pay-out. The study found that there is a significant positive association between the performance of firms and the dividend pay-out of the sampled firms in Nigeria.

Kowalewski, Stetsyuk and Talavere (2007) explored the determinants of the dividend policy in Poland. Their results suggest that large and more profitable companies have a higher dividend pay-out ratio. Al-Malkawi (2007), explored the determinant of corporate dividend policy in Jordan for a period of twelve (12) years from 1989-2000. The result indicated that profitability is one of the strongest determinants of dividend pay-out ratio of firms. The outcome of the study strongly supported the signaling theory.

Some studies evidenced that low profit influences earnings management Alhadab, and Al-own, 2017; Kothari, Mizik and Roychowdhury, 2016; Cohen and Zarowin, 2010; Doyle, Ge and McVay, 2007 Lee, Li, and Yue 2006; Kim, Liu, and Rhee 2003, while other studies proved it is not Ardekani, Nejat and Hashemijo, 2012; De Angelo, De Angelo, and Skinner, 1994.

Adelegan (2000) studied the determinants of dividend pay-out ratio in Nigeria, for a period of eleven (11) years that is from 1984 to 1994. The correlation matrix showed significant positive association between dividend pay-out ratio and firm size. The regression result showed that firm size is strong feature influencing dividend pay-out of firms. Uwuigbe (2013) investigated the determinants of dividend policy in the Nigerian Stock Exchange markets. The study was basically modeled to examine the effects of firm size amongst other variable on the dividend pay-out ratio of listed firms operating in the Nigerian Stock Exchange market using the regression analysis method. The findings of the study revealed that there was a significant positive relationship and impact between size of firm and the dividend pay-out ratio of listed firms in Nigeria. Rufus and Soyoye (2014) investigated the determinants of dividend pay-out in the Nigerian banking industry over the period of three (3) years between 2006 and 2008. The study employed pooled regression techniques using the data of the Nigerian quoted banks. The result showed that firm size has a positive and significant impact on the dividend pay-out of quoted banks in Nigeria. Findings of Jahmani and Niranjan (2015) revealed that the size of a firm relates significantly to earnings management. More so, studies of Aini, Takiah, Pourjalali and Teruya, (2006) established larger firms have more interest in managing earnings. Kim, Liu, and Rhee (2003) also showed that larger firm considers the implication of earnings management on their reputation while smaller firms manage earnings to avoid reporting loses. However, Gu, Lee, and Rosett, (2005) documented that size of a firm does not attract earnings management.

In another related study, Norden and Stoian (2013) investigated whether banks use discretionary loan loss provisions (DLLPs) to manage the level and volatility of their earnings and the implications for bank risk. Their results revealed that banks use DLLPs to manage the level and volatility of earnings downward when they are abnormally high and when expected dividends are lower than current earnings. They also found that banks smooth the volatility of their earnings with DLLPs, and finally that dividend-paying banks with expected dividends lower than the current earnings are likely to increase DLLPs; recommending that Accounting standard setters, financial supervisors and regulators should take into account that banks' use of loan loss provisions as double-edged sword affect profitability and risk simultaneously.

2.3 Theoretical Framework

The theoretical frameworks underpinning this study are Signalling and Agency theories. Signalling theory refers to the idea that the agents send information to the principal in order to create credible relationship. Managers have more first-hand information about the firm than firm investors do but they are always reluctant to provide transparent information to the shareholders, so, the dividend policy can be used for information purpose and it acts as a signal for the firm future projection proficiently. Miller and Rock (1985), Li and Zhao (2008) argued that dividend policy plays a leading role because it can be used to convey information to the shareholders about the firm value. Along with dividend, institutional shareholders can also be viewed as more powerful signalling because they are more influential in monitoring the firm performance readily (Zeckhaiiser & Pound, 1990).

According to the information content of dividends or signalling theory, firms, despite the distortion of investment decisions to capital gains, may pay dividends to signal their future prospects (Amidu, 2007). The intuition underlying this argument is based on the information asymmetry between managers (insiders) and outside investors, where managers have private information about the current and future fortunes of the firm that is not available to outsiders.

This study also adopts agency theory due to its relevance in resolving conflict that may arise between managers (agent) and shareholders (principal) of the companies, its empirical evidence in the studies conducted by several scholars on ownership structure and dividend policy of capital market in Nigeria and patterns of Nigeria's companies captures the key postulations of agency theory which serves as basis for the adoption.

3. Methodology

The study utilises the whole fourteen listed deposit money banks on the Nigerian stock exchange as at 31st December, 2019. In addition, the research is a post-positivism paradigm that relied on secondary financial and market data available in stock exchange fact book and financial statement of the banks for ten years have been utilized in this study. The period covers is from 2010 to 2019.

This study has earnings management as its dependent variable and it is measured using loan loss provision of banks. The study makes use of Regresion technique of data analysis. A simple model of Ben Othman & Mersni (2014) model has been adopted for the study.

$$\mathbf{LLP_{it} = \beta_0 + \beta_1 NPL_{it-1} + \beta_2 \Delta NPLit + \beta_3 \Delta TL + \varepsilon_{it}}$$

Where:

LLP_{it} = total loan loss provision LLP for bank i at the year t, deflated by beginning loans.

NPL_{it-1} = the beginning balance of non-performing loan for bank i at the year t deflated beginning loans.

ΔNPL_{it} = change in the value of non-performing loan for bank i at the year t, deflated by beginning loans.

ΔTL = change in the value of total loan, for bank i at the year t, deflated by beginning loans.

ε_{it} = the absolute residual of the model is considered the Discretionary loan loss provision DLLP and it is used to measure EM.

$$DLLP_{it} = \beta_0 + \beta_1 DP_{it} + \beta_2 PRit + \beta_3 SRit + \beta_4 TR\ it + \varepsilon_{it}$$

Table 3.1 is a presentation of variable measurement.

Table 3.1Variables Measurement

	Definitions	Measurements
EM	Earnings Management	Absolute value of Residual (Ben Othman & Mersni, 2014)
DP	Dividend Payout	The ratio of total dividend payment to total profit after tax (Kuzucu, 2015)
PR	Profitability	The ratio of profit before tax & interest to total assst (Sheikh, Rafique & Abbas, 2016)
SZ	Size	The natural logarithms of total asset value (Gusni, 2016)
TR	Tax Rate	The ratio of current year tax to profit before tax (Arif & Akbar, 2013, Lin, Thaker & Khaliq, 2018)

Source: author measures, 2021

4. Presentation of Results and Discussion of Findings

Table4.1: Descriptive Statistics

Variables	Min	Max	Mean	Std. Dev
EM	-0.4746	5.0400	0.5049	0.5295
SZ	18.8300	22.8300	20.9354	0.9105
PR	-0.1068	0.0656	0.0136	0.2677
DP	0.7209	6.0729	0.3581	0.7920
TR	-1.0016	0.8142	0.1512	0.2151

Source: STATA Output listing, 2021

Table 4.1 is the summary statistics of the explanatory variables. The minimum of earnings management (EM) is -0.4746 and a maximum of 5.0400 while the average is 0.5049. The result indicated that average earnings management (EM) of these banks is 5%. Dividend pay-out (DP) has an average of 0.3581 and ranging from the extreme values of 0.7209 to 6.729 as the maximum. This implies that while some banks pay dividend of less than ₦1 to their shareholders at a particular year other were able to pay ₦6 at a particular year. The standard deviation of profitability of the sample banks stands as 0.2677 followed by a minimum and maximum values of -0.1068 and 0.0656 respectively. Similarly, size (SZ) has an average value of 20.9354 with a standard deviation of 0.9105 and minimum and maximum values of 18.8300 and 22.8300. Tax rate (TR) recorded an average value of 0.1512, a standard deviation of 0.2151 and minimum and maximum values of 1.0016 and 0.8142 respectively. This result indicated that on average the total value of tax rate (TR) paid by the sample firms is 15%.

Table 4.2: Summary of Regression Result

Variables	Coefficient	T-Values	P-Values
SZ	0.1428	7.8800	0.0000
PR	-1.1340	-6.9500	0.0000
DP	-0.1425	-2.1800	0.0310
TR	-0.5092	-3.0500	0.0030
Constant	-1.9052	-5.9000	0.0000

R2	0.4853
F-Sta	131.8900
F-Sig	0.0000
Mean VIF	3.5700
Heteest	0.1500
Het-Sig	0.7027
Hausman	33.4800
Hausman-Sig	0.0000

Source: STATA Output listing, 2021

From the Table 4.2 above, the regression result reveals that profitability has a t-value of -6.9500 and a coefficient beta value of -1.1340 with a significant p-value of 0.000. This indicates that for every 1% increase in the proportion of profitability of listed deposit money banks (DMBs), the earnings management will reduce by 1kobo which is negligible. The findings from this result serve as sufficient evidence of rejecting hypothesis two of this study which states that profitability is not significantly related to earnings management. This finding does not support the studies of Ardekani, Nejat & Hashemijo, 2012; De Angelo, & Skinner, (1994). The result also revealed that size has a t-value of 7.8800, coefficient value of 0.1428 which is statistically significant at 1% level as proven by the probability value of 0.000. This signifies that size is positively, strongly and statistically influencing earnings management (EM) of listed deposit money banks. This implies that for every 1% increase in the size as represented by the natural log of total asset of DMBs listed in Nigeria, the earnings management (EM) will also increase significantly by 14k. This is not surprising considering the fact that a significant proportion of bank's asset is represented by loans (facility) which is a major avenue of earnings management by banks.

However, this finding serves as evidence of rejecting hypothesis one of the studies which states that size is not significantly related to earnings management. This finding is different from Gu, Lee, Rosett, 2005, evidenced that size of a firm does not attract earnings management.

The regression result reveals that dividend pay-out has a t-value of -2.1800 with regression coefficient of -0.1425 which is statistically significant at 5% level. This implies that dividend pay-out has significant effect on the earnings management (EM) of listed deposit money banks (DMBs) in Nigeria. This finding gives evidence of rejecting the third null hypothesis of the study which says dividend pay-out is not significantly related to earnings management of listed deposit money banks (DMBs) in Nigeria. This is not in line with Ajide and Aderemi (2014); Aurangzeb and Dilawer, (2012); Savov (2006) evidenced that dividend payout has no influence on earning management.

In addition, the result of tax rate reveals a t-value of -3.0500 and a beta value of -0.5092 with a p-value of 0.0030. This signifies that tax rate is another factor that influences earnings management (EM) of deposit money banks listed in Nigeria. This result is consistent with the study priory expectations that tax rate influences manager's opportunistic tendencies. This result confirms the earlier result presented for profitability. Hence, this finding provides sufficient reasons of rejecting the fourth null

hypothesis of the study which states that tax rate is not significantly related to earnings management (EM) of deposit money banks (DMBs) in Nigeria. This supports the findings of Edelstein et al., (2009) that tax rate influences earnings management by companies manipulating profit to pay less tax.

The result of the Multicolinearity shows the mean VIF of 3.5700 and VIF's are consistently less than 10 and tolerance value less 1, implies that multicollinearity is not a problem (Cassey & Anderson, 1999). However, the result obtained from the heteroscedasticity test is not significant from the probability value of 0.7027 indicates that the panel element were homoscedestic for the fact that it is a panel data the test for fixed and random effect were conducted. In addition, the result obtained from the Hausman specification test conducted indicates that the probability value < 0.05 which suggested the use and subsequent interpretation of fixed effect model in favour of the random effect. The cumulative R^2 (0.4853) which is the multiple coefficients of determination gives the proportion or percentage of the total variation in the dependent variable as explained by the independent variables jointly. Hence, it signifies 49% of total variation in earnings management (EM) of listed deposit money banks (DMBs) in Nigerian is caused by the collective efforts of size, profitability, dividend pay-out and tax rate. This result further indicates that the model is fit.

The Fisher's statistics (F-statistics) of 131.8900 which is significant at 1% indicates that the firm specific characteristics model is fit. In addition, it also implies that for any change in firm specific characteristics variables used in this study, the earnings management of these DMBs will be directly affected. The probability value of (0.000) of the F-statistics which is significant at 1% implies that there is 99.9 percent likelihood that the association among variables is not due to mere chance.

5. Conclusion and Recommendations

While the impact of earnings quality on dividend policy of firm performance and value has been analysed in several recent cross – section time series studies in both developed and developing economies, little is known about the impact of earnings management on dividend policy of the listed deposit money banks in Nigeria in isolation. This study fills gap for this sector in Nigeria. The study utilizes four variables; size, profitability, dividend pay-out and tax rate, which the agency and signalling theories have always emphasized.

The study reveals that all the four null formulated hypotheses for this study have been rejected, meaning that they are all significantly related to earnings management of listed deposit money banks in Nigeria.

In line with the findings and conclusion of the study, the following recommendations are proffered. Accounting standard setters/ regulators should consider reducing the range of accounting choices allowed for the same economic transaction. This would effectively reduce the opportunities of creative accounting in the area of choice of accounting methods. In addition to this, accounting regulators should reduce the area allowed for subjective evaluation. Abuse of judgement, creative presentation of financial numbers and for dishonest estimates can be curbed by drafting rules that minimize the use of judgement and specifically requiring auditors to play a key role in identifying dishonest estimates.

Standard setters should also consider the abolishing of the category of 'extraordinary items' in the profit and loss account. This

was the case in the UK where the Accounting Standards Board (ASB), in response to UK company accountants' tendency to use the 'extraordinary items' part of the profit and loss account for items they wished to avoid included in operating profit, abolished it.

Bank size and profitability of listed deposit money banks in Nigerian should be improved upon in order to increase the dividend pay-out ratio in the studied banks. Nigerian listed deposit money banks should try to encourage institutions into acquisition of their shares so that their activities can be monitored. Institutions can be brought into the centre stage by selling shares to them at a discounted rate as this will motivate them to have shares in the banks.

Finally, banks should reduce the rate of debt as it lowers the quantum of its dividend pay-out. Betters still, listed deposit money banks should source fund at a cheaper cost as this will help in increasing their profit margin which will eventually translate into dividend.

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