International Journal of Economics and Development Policy (IJEDP)
Vol. 6 No. 2, December, 2023
Print - ISSN: 2651-5644
Online - ISSN: 2651-5644

Impact of Liquidity Management and Dividend Policy of Listed Consumer Goods Companies in Nigeria

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Abstract

The study examined the impact of liquidity management on dividend policy of listed consumer goods companies in Nigeria. Secondary data were obtained from annual reports and accounts of the companies for the period, 2009-2020. The study employed descriptive statistics, correlation matrix and Generalized Method of Moment (GMM) regression as analytical tools. The study discovered that current ratio (CR) had a negative and insignificant impact on dividend pay-out ratio, quick ratio (QR) had positive and significant impact on dividend pay-out ratio while cash flow (CF) had a negative and significant impact on dividend pay-out ratio of the listed companies. The study recommended that investors should consider companies with high liquidity. The study further recommended that companies should maintain a robust liquidity position which will guarantee investors the ability of companies to settle dividends as at when due. Lastly, there is need for management to, at intervals, review dividend policy.

Keywords: Current ratio (CR), Quick ratio (CR), Cash flow (CF) and Dividend pay-out (DPO).
JEL Classification: G32, E44

Contribution to/Originality Knowledge
This research has contributed to the existing body of literature as it addressed the current issues with regards to Liquidity Management and Dividend Policy. Also, the study employed GMM as a technique of analysis which makes it unique compared to most studies on the subject matter.

1.0 Introduction

Liquidity of a firm refers to its ability to meet short term obligations using firm's assets that can be quickly converted to cash since cash is the most liquid form of asset. Liquidity management entails elimination of default chances on obligations as they fall due and balancing between short term assets and liabilities (Eljelly, 2004 as cited in Kimutai, 2012). Proper liquidity management is essential in every organization and indicate a business' ability to meet the payment obligations by comparing the cash and near-cash with the payment obligations. If the current assets of the firm are less than the current liabilities, it indicates that the business might face difficulties in meeting its immediate financial obligations. This can, in turn, affect the company's business operations and effectiveness and its ability to pay dividends (Olang *et al.*, 2015).

Liquidity and its management determine to a great extent the growth and profitability of a firm. In an attempt to maximize the value of the firm, managers employ sound management techniques to ensure that there is a balance between liquidity and profitability (Olang &

Akenga, 2017). Liquidity should neither be excessive nor inadequate. Excessive liquidity means a firm has idle fund which lowers profitability, whereas inadequate liquidity results in interruption of business operations (Ibrahim & Muhammad, 2017). A weak liquidity level poses a hazard to the solvency of a firm and makes it risky and unsound (Ben-Caleb *et al.*, 2013; Felix & James, 2018).

The investment decision made by a firm determines the future gains and potential dividend of the firm. However, the dividend paid to shareholders is determined by dividend policy, referred to the practice that management follows to make dividend pay-out decisions or the size and pattern of cash disbursement overtime to shareholders (Ibrahim, 2015). Dividend policy is one of the controversial issues in the existing research since it attempts to balance the conflict between managers and investors who take the risk by investing in the stock of particular company (Mahmud, 2016). Dividend policies vary widely across companies and sectors and remain one of the important areas of decision making in any corporate organization since many private investors invest to get return on their investment (Cristiano *et al.*, 2015; Hassan & Sayed, 2014). Dividend policy is linked to two aspects, the decision to pay or not to pay and the amount of dividend paid or dividend ratio (Sawitri & Sulistyowati, 2018).

Companies paying out dividend must take into consideration the liquidity position of the firm because, if the liquidity position of a firm is not good enough, even if it is profitable, it will not be in a position to pay dividend. It may be possible that firms can have enough profit to declare dividends but no sufficient cash at hand to pay the dividends (Kimutai, 2012; Oladipupo & Okafor, 2013). Firms employ both current assets and current liabilities in their business activities to generate economic profit for the interest of all stakeholders who are particularly interested in the returns of their investment in the form of dividend payments. An organization will be concerned to pay dividend only when it has profit and cash is readily available (Oladipupo & Okafor, 2013). According to the agency theory of cash flow, Jensen (1986) argued that firm with high cash flow pay higher dividends to reduce agency conflict between managers and shareholders. Therefore, the probability that a firm will pay cash dividend is positively related to liquidity and this positive relationship is supported by signalling theory of dividend policy (Sunday, 2017). However, negative relationship may exist between liquidity and dividend payout ratio which suggests that, increase in payout ratio reduces firm's liquidity level (Kartal, 2015).

The management of working capital is one of the challenging issues for financial managers as the success or otherwise of the management of the financial ratios affects the company either positively or negatively. The consequences of ineffective management of working capital are the inability of the firm to meet its financial obligations (Eya, 2016). Liquidity of a firm strengthens its ability to pay dividend. But due to lack of knowledge regarding the working capital management and lack of management ability to plan and control its components, companies are faced with the problem of insolvency (Ahmed *et al.*, 2017). Decline in liquidity level may result in insolvency and eventually bankruptcy as the business's liabilities exceed its assets (Angelique, 2000).

This study seeks to investigate the impact of liquidity management (CR, QR & CF) on dividend policy of listed consumer goods companies in Nigeria.

2.0 Literature Review

2.0.1 Concept of Liquidity Management

The concept of liquidity management is focused on various literature reviews from different authors in order to have better understanding of the meaning of liquidity management of listed consumer goods companies in Nigeria. According to Griffin (2010), liquidity refers to the ability to trade large volumes quickly, at low cost and without moving the price. Also, Nguyen (2016) defined liquidity as the extent at which a firm can pay short-term liabilities based on its liquid assets. By this definition, liquidity is described as the ability of a firm to settle its short-term obligation from company's available resources. Priya and Nimalathasan (2013) considered liquidity as having enough money in form of cash to meet financial obligation. Alternatively, the ease at which asset can be converted to cash. In the same vein, Mahmud (2016) defined liquidity as the ability to absorb smoothly the flow of buying and selling. This definition implies that liquidity is the flow of funds between suppliers and customers which result in high trading activities. In addition to that, Asian (2015) viewed liquidity as the ease with which a company can pay its bills and liabilities over a period of one year. It is the ability to pay its short-term obligation using its most liquid asset.

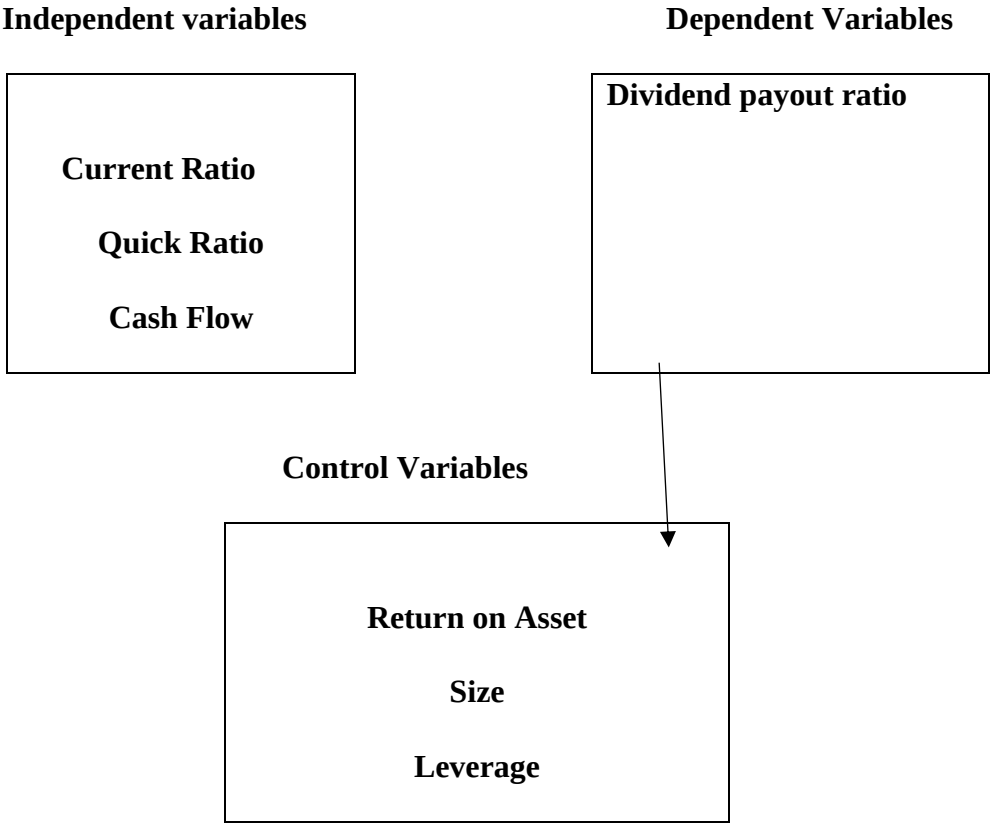
2.2 Concept of Dividend Policy

Dividend policy is the policy taken by the management of a company to decide to pay part of the corporate profits in the form of dividend to shareholders rather than hold them as retained earnings (Rozi & Trisni, 2018). According to Ibrahim (2015), dividend policy is the practice that management follows in making pay-out decisions or the size and pattern of cash distributions over time to shareholders. Dividend policy as defined by Mahmud (2016), is a firm's strategies with regard to paying out earnings as dividend contra retaining to reinvesting them in the firm. Dividend policy is the pay-out strategy that managers make cash distribution to the shareholders over time.

2.2.1 Conceptual Framework

The Conceptual Framework depicts the variables of the study in the form of independent variables, liquidity proxied by current ratio (CR), quick ratio (QR) and cash flow ratio (CF). The framework further depicts the dependent variables, which is dividend policy proxied by dividend payout ratio (DPR).

Conceptual Framework



2.3 Review of empirical studies

Kimutai (2012) carried out research on the effect of liquidity on dividend pay-out of 34 companies listed on the Nairobi Stock Exchange from 2007-2011. Dividend pay-out ratio was used as the proxy for the dependent variable while liquidity (CR), profitability (ROA), cash flow (CF), sales growth, and earnings per share (EPS) were used as the independent variables. Data were analysed using multiple regressions and a discovery was made on a positive effect of liquidity on dividend pay-out. Findings also revealed that all other independent variables except cash had a positive but insignificant relationship with dividend policy. The study of Oladipupo and Okafor (2013) focused on relative contribution of working capital management to corporate profitability and dividend pay-out ratio of 5 firms listed on the Nigeria Stock Exchange over 5 years period (2002-2006). Method used for data analysis includes Pearson Product Moment, correlation techniques and ordinary least square regressions techniques. It was observed that dividend pay-out ratio was positively influenced by profitability while the effect of liquidity on the dividend pay-out ratio appeared to be statistically insignificant.

Again, Maniagi *et al* (2013) examined the determinants of dividend policy of non-financial firms listed on Nairobi Securities exchange. 30 non-financial companies listed on the Nairobi Stock Exchange for the duration of five years from 2007-2011 was selected as the sample of the study. Dividend policy was the dependent variable proxied by dividend pay-out ratio whereas the independent variables considered for the study were liquidity (CR), profitability

(ROE and EPS), size, current earnings, and growth. Descriptive statistics and multiple regressions were employed. Profitability (ROE), liquidity (CR) and size were all negatively, statistically and insignificantly related to dividend policy. The study of Nyor and Adejuwon (2013) focused on what accounts for dividend payments in Nigerian banking industry. The study used 5 banks listed on the Nigeria Stock exchange from 2001-2010. Dividend pay-out was used as the dependent variable while liquidity, profitability and shareholders fund were the independent variables. Data were analysed using multiple regression and findings revealed that liquidity and profitability have positive but insignificant relationship with dividend pay-out, but liquidity is the foremost of them all.

The study of Calistus *et al.* (2014) focused on the dividend pay-out by agricultural firms listed on the Nairobi Stock Exchange from the period 2005-2010. The study used multiple regressions to analyse 7 agricultural firms. The independent variables used for the study include liquidity (CR), profitability (ROE), firm size and leverage while dividend pay-out was considered as the dependent variable. Results showed that liquidity and profitability are positively and significantly related to dividend policy. The result also revealed that firm size showed a negative but significant relationship while leverage showed a negative and insignificant association with dividend pay-out of agricultural firms in Kenya.

Also, the study of Olang *et al.* (2015) investigated the effect of liquidity on the dividend pay-out by firms listed at the Nairobi Stock Exchange for the period 2008-2012. The study considered 30 out of 61 listed firms as the sample size. Dependent variable used was dividend pay-out (DPO) while profitability (ROE), cash flow (measured as Economic Value Added) and liquidity (CR) were used as the independent variables. Using descriptive statistics and multiple linear regressions, results showed that liquidity, profitability and cash flow are positively and significantly related to dividend pay-out.

Reuben *et al.* (2015) studied 34 firms to find the relationship between liquidity and dividend pay-out ratio of firms listed on Nairobi Stock Exchange from 2006 -2013. Using multiple regressions model and Pearson correlation to determine the relationship of liquidity and dividend pay-out ratio, it was concluded that there was no statistically significant relationship between liquidity and dividend pay-out. Gangil and Nathani (2018) conducted a study on the determinants of dividend policy of fast-moving consumer goods (FMCG) in India. The study used 100 firms listed on National Stock Exchange covering the period from 2007-2016. The dependent variable was dividend policy proxied by dividend pay-out while the independent variables were profitability (proxied by ROA, cash flow to sales ratio and EPS), liquidity (proxied by current ratio and liquid ratio), growth opportunities and firm size. Multiple regression technique was employed for data analysis and findings of the study revealed that, Profitability and growth opportunities have positive but insignificant effect on dividend policy while firm liquidity and firm size have negative and insignificant effect on dividend policy.

The study of Mark (2018) empirically investigated the factors affecting dividend pay-out in listed commercial banks in Kenya. 6 out of 11 listed commercial banks were chosen as the sample for a period of 2012-2016. Data was analysed using both descriptive and inferential analysis techniques. The study considered profitability (ROA), liquidity (CR), size and past

dividend as the independent variables while dividend pay-out was the dependent variable. Findings revealed that profitability and past dividend per share were found to be positively correlated with dividend pay-out while liquidity and firm size were found to be negatively correlated.

3.0 Methodology

The study employed ex-post facto and correlational research design to describe in quantitative terms the degree of which the dependent variable (dividend policy, proxied by dividend pay-out ratio and independent variables (liquidity, proxied by current ratio, quick ratio, and cash flow) are impacted and related. The study used this technique to describe the strength and direction of the relationship between the dependent variables and independent variables and where relationship exists between the two variables, it can be used to predict the future. The study relied on secondary data to extract the annual reports and accounts of the sampled companies.

The population of the study consisted of the twenty-one (21) consumer goods companies quoted on the Nigerian Stock Exchange (NSE) from 2009-2020. Two sampling criteria were used to select the sample of the study. The first criterion was that company must be listed on the Nigerian Stock Exchange on or before 2009, and the second criterion was that company must have complete annual reports and accounts for the period under review. Based on the affirmation criteria, using census sampling, fourteen (14) listed consumer goods companies were selected as the sample of the study from 2009-2020. These are: Cadbury Nig. Plc., Dangote Sugar Refinery Plc., Dangote Flour Mills Plc., Flour Mills Nig. Plc., Guinness Nig. Plc., International Breweries Plc., Northern Nig. Flour Mills Plc., Nascon Allied Industries, Nestle Nig. Plc., Nigerian Breweries Plc., Nigerian Enamelware Plc., PZ Cussons Nig. Plc., Unilever Nig. Plc and Vitafoam Nig. Plc.

The variables of the study are the dependent and independent variables. The dependent variable, dividend pay-out is measured by Dividend per Share over Earning per Share. For the independent variable, liquidity management, is proxied by Current Ratio (measured by Current Assets over Current Liabilities), Quick Ratio (Measured by Current assets less Inventory over current Liabilities and Cash Flow (Measured by Cash and Cash Equivalent over Current Liabilities).

The control variables of the study are Return on Assets (Measured by Profit before Interest amd Tax over Total Assets), Size (measured by Natural log of Total Assets) and Leverage (Debt over Total Assets)'

Model Specification

$$DPR_{it} = \alpha_0 + \beta_1 CR_{it} + \beta_2 QR_{it} + \beta_3 CF_{it} + \beta_4 ROA_{it} + \beta_5 LEV_{it} + \beta_6 SZ_{it} + \mu_{it} \qquad (0.1)$$

4.0 Result and Discussion

4.1 Descriptive Statistics

Variables	Mean	Std. Dev	Min	Max
Dpr	0.4512	0.6734	-4.0625	3.8359
Cr	1.2095	0.5372	0.24	2.9900
Qr	0.7615	0.4426	0.14	2.4200
Cf	0.2059	0.3822	-0.7791	1.3760
Roa	0.1107	0.1626	-0.545	0.9900
Size	17.5335	1.6378	11.3921	19.9947
Lev	0.5823	0.1516	0.0739	0.8875

Source: *Researcher's Computation (2020)*

Table 4.1 presents the result of descriptive statistics of the dependent variables (DPR), the independent variables (CR, QR and CF) and the control variables (ROA, SIZE and LEV) for listed consumer goods companies for 12-year period from 2009-2020 under review. The percentage pay out for the listed consumer goods ranges from a minimum of negative -4.0625 to a maximum of 3.8359 with a mean of 0.4512 and a standard deviation of 0.6734, respectively. Current Ratio (CR) ranges between a minimum 0.24 to a maximum of 2.99 with an average level of 1.21 and standard deviation of 0.5372. This implies that on the average, all the 14 listed consumer goods companies maintain a current ratio of 1.21 levels which is below the minimum level of 2:1. The quick ratio (QR) maintained by the companies ranged between a minimum of 0.14 to a maximum of 2.42 with an average of 0.76 and a standard deviation of 0.442. This means that the listed consumer goods companies under study failed to maintain the minimum quick ratio level of is 1:1, indicating a poor liquidity position of the companies. The cash flow (CF) of the listed consumer goods companies under the period of study ranges between a minimum of negative -0.7791 with an average of 0.2058 and a maximum and standard deviation of 1.376 and 0.3822, respectively.

For the control variables, Return on Asset (ROA) shows a minimum negative return of -54.5% to a maximum of 99% with an average of 11.1% and a standard deviation of 16.26%. This means that for every one-naira worth of investment, the companies have made a loss of 54.5%, an average profit of 11.1% and a maximum profit of 99%. Company Size as defined by natural log of total asset of the fourteen consumer goods companies under the period of the study ranges from a minimum of 11.3921 to a maximum of 19.99, having an average of 17.53 and a standard deviation of 1.6378 implying that the average total assets maintained by the listed 14 consumer goods companies is N17billion. Furthermore, Leverage (LEV) shows a minimum of 7.39%, an average of 58.22% and a maximum of 88.75%.

4.1.2 Correlation Matrix

Table 4.2 Correlation Matrix

Variables	Dpr	Cr	Qr	Cf	Roa	Size	Lev
Dpr	1.0000						
Cr	0.0255	1.0000					
Qr	0.0604	0.8478	1.0000				
Cf	0.0240	0.5170	0.6481	1.0000			
Roa	0.2148	0.1150	0.1708	0.1983	10000		
Size	0.1526	-0.2360	-0.2105	0.0457	0.1396	10000	
Lev	-0.0377	-0.5820	-0.5432	-0.4739	-0.1122	-0.0335	10000

***Source**: Researcher's Compilations (2020)*

Table 4.2 shows the correlation matrix of dependent variable (DPR) and the independent variables (CR, QR and CF). The results reveal that dividend pay-out is positively correlated with all the variables except for leverage which has a negative correlation of -0.0377. The negative correlation indicates that firms concentrate on payment of loans and interest which resulted to lower payment of dividend.

Table 4.3 Result of Two Step System GMM (Liquidity and Dividend Payout)

Dpr	Coef.	Std. Err	Z	P	95%Conf.	Interval
Dpr	-0.1452	0.1320	-1.10	0.271	-0.4038	0.1134
Cr	-2.6562	1.6545	-1.61	0.108	-5.8989	0.5864
Qr	0.9977	0.5169	1.93	0.054	-0.1542	2.0109
Cf	-0.9435	0.3917	-2.41	0.016	-1.7111	-0.1759
Roa	2,6712	0.8626	3.10	0.002	0.9805	4.3618
Size	-0.1973	0.1208	-1.63	0.102	-0.4340	0.0395
Lev	-6.4097	3.8546	-1,66	0.096	-13.9647	1.1452

Cons	10.1189	6.2442	1.62	0.105	-2.1245	22.3522
Number of Observations			140			
Number of companies			14			
Sargan Test			1.0000		0.8666	
Arrelano Bond AR(2) test			-1.8751		0.0608	

***Source**: researcher's computation (2020)*

Table 4.3 reveals the results of two-step system GMM on Liquidity (Proxied by CR, QR and CF) and Dividend payout ratio. The coefficient of the lagged dividend (LDPO) reveals a negative and statistically insignificant effect on current dividend pay-out. This shows that previous dividend had an insignificant impact in determining the current dividend pay-out. Findings reveals that there is a negative and insignificant impact between dividend pay-out (DPR) and current ratio (CR). This is evident from its coefficient of -2.65 and a p-value of 0.108 indicating that an increase in a unit of current ratio (CR) will lead to a decrease in dividend payout by -2.65%, implying that companies with high liquidity level invest in working capital rather than pay dividend. This result agreed with the findings of Oladipupo and Okafor (2013) who conducted research on working Capital Management and Dividend Policy and Reuben *et al*. (2015) who also conducted research on the relationship of working capital management and dividend payout ratio, but contradicted the work of Olang *et al. (*2015) and Abubakar and Nasiru (2015) who found a positive impact between current ratio and dividend payout.

Finding further reveals a positive and significant relationship between quick ratio (QR) and dividend pay-out at 5% level of significance. The positive association is evident by their P-value of 0.054 with a coefficient of 0.9977. The positive impact implies that an increase in a unit of quick ratio (QR) has led to an increase in the percentage of dividend pay-out by 99.77%. This finding is similar with the findings of Olang *et al.* (2015) who studied the effect Liquidity on the Dividend Pay-out but did not agree with the findings of Gangil & Nathani (2018) who studied Liquidity and Dividend Policy. Also, it was observed that at 5% level of significance, cash flow (CF) is statistically negative but significant as it is seen from its coefficient of -0.9435 and a p-value of 0.016. The coefficient of -0.9435 implies that an increase in a unit of cash flow of listed consumer goods company has resulted to a decrease in dividend pay-out by 94%. It can be said that the negative impact is due to commitments of funds by companies to invest in projects with positive returns which eventually resulted in the decrease of dividend pay-out of consumer goods companies. These findings agree with the findings of Kimutai (2012), who studied The Effect of Liquidity on Dividend Pay-out, but contradicted the studies of Olang and Akenga (2017).

5.0 Conclusion and Recommendations

The study examined the impact of liquidity management and dividend policy of listed consumer goods companies in Nigeria. Based on the analyses carried out, the result showed a negative and insignificant between liquidity and dividend pay-out ratio. The result further revealed a positive and significant association between quick ratio (QR) and dividend pay-out ratio but there was a negative but significant impact between cash flow and dividend policy of listed consumer goods companies in Nigeria. For the control variables, return on assets (ROA) had a positive and significant association with dividend pay-out ratio whereas size (SZ) and leverage (LEV) had a negative and insignificant relationship with dividend pay-out ratio respectively.

The study therefore concluded that quick ratio (QR) and cash flow (CF) are major factors influencing firm's dividend pay-out decisions as such, management need to consider quick ratio and cash flow in formulating dividend policy.

Based on the conclusions arrived at, it is recommended that potential investors should invest in companies with high liquidity (QR) since is a good indication that companies have great potentials of fixing dividend amount. It is further recommended that management should consider other determinants of dividend policy such as roa while making dividend decisions. There is the need for a robust liquidity management to ensure investors' confidence is guaranteed through dividend pay-out.

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