NIGERIAN JOURNAL OF ACCOUNTING RESEARCH
A Publication of The Department of Accounting,
Ahmadu Bello University, Zaria-Nigeria
Vol. 1, Number 2 ,December, 2014
https://njar.org.ng/

DETERMINANTS OF DIVIDEND PAYOUT RATIO IN THE NIGERIAN LISTED FIRMS

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Abstract

The study examines the determinants of dividend payout ratio of listed firms in Nigerian Stock Exchange Market. In the light of previous studies, key explanatory variables were identified to disclose their relationship and impact on determination of dividend payout ratio. These variables are profitability, corporate tax, financial leverage and firm size. Out of 180 listed firms in Nigerian Stock Exchange, only 44 firms announced dividend payment in year 2013, these firms constitute our population for the purpose of this study. Ordinary Lease Square (OLS) multiple regression technique is adopted using secondary data extracted from the annual reports and accounts of the sampled firms. The results revealed that that corporate tax and financial leverage have positive and significant influence on DPR of listed firms in the Nigerian Stock Exchange for the 2013 year at 5% and 1% level respectively. Also found in the study was that profitability is positive but not significantly influencing DPR of the listed firms in 2013. However, firm size was found to be insignificant in the context of determining the dividend payout ratio of the listed firms studied. Therefore the study conclude that firms that have higher profit and strong access to external loan will have more preference for dividend payment while large-size firm may prefer to pay less dividends. It is recommended that the listed firms in the Nigerian Stock Exchange should always be conversant with the investors' preference when it comes to dividend payment Nigeria and should optimally utilize the leverage component of their capital structure.

The more the debt, the better the payout ratio based on the findings from this study.

Keywords: Dividend, payout ratio, Dividend payout ratio, Determinants, Nigerian Stock Exchange, Listed firms.

1.1 Introduction

A management's decision on paying or not to pay dividend will largely depend on the prevailing circumstances. Dividend decision is paramount to the success of any organization and it is important that management consider the best alternative. Thus, in the process of making dividend decisions, management needs to consider the available investment opportunities that will contribute positively to the future earnings and in the absence of such opportunities, management should pay dividend to the shareholders (Miller & Modigliani, 1961).

The classical perspective of the dividend decision holds that at a particular period of time the amount of cash distributed as dividend is more valuable than the retained cash. They are of the opinion that the early payment of dividend may not have any significant change on the corporation risk level rather it will change the perception of the shareholders about the corporation's risk level. Thus, dividends are more valuable than retained earnings. Lintner (1956), pointed out that firms in the developed market target their dividend payout ratio with the help of current earnings and past dividends. Therefore, in order to reach such target various adjustment are made in the dividend policy of a firm and thus firms should have stable dividend policies. However, Miller and Modigliani (1961) opined that dividend policy is irrelevant as long as the firm investment policies remain the same. Their argument is based on the fact that value of the firm is not affected by the amount of dividend paid but rather by the earning power of the project in which the firm invested its money and its class of share. A lot of arguments have been ensued in the literature on the factors that determine dividend policies of firms but the critical question that remains unanswered is: does dividend payout ratio affect firm's performance.

Dividend policy has been a subject of hot debate in corporate finance literature. Many researchers and academicians have come up with theoretical models to justify the factors that determine dividend policy for companies but no agreement has been reached on the factors that determine dividend behavior of companies. Dividend policy is one of the top ten most difficult unresolved problems in corporate finance (Bealey and Mayer, 2005). This argument is in line with Black (1976) who stated that the harder we look at the dividend picture, the more it seems like a puzzle with pieces that don't just fit together. The portion of retained earnings or a firm's total earnings that is distributed as dividend to the shareholders as return for their investment is regarded as dividend payout ratio. Therefore, it is imperative that companies make

appropriate dividend decision on the proportion of earnings to be retained for growth and investment and what proportion should be distributed to shareholders as dividend. The decision to payout earnings in the form of dividend to shareholders as oppose retaining them for re-investment is regarded as dividend policy. A firm's decision to pay dividend will certainly reduces the amount retained in the firm which in effect affects the total amount for internal financing.

There is a school of thought that advocates that the higher the dividend payout ratio, the more attractive the share is to shareholders (Gordon, 1959; Ohlson, 1995; Bancel, Mittoo & Bhattacharya, 2005; Al-Kuwari, 2009). This is not always true as investors view some firms that retained higher proportions of their profits as firms with strategic investment opportunities. In this vein, another school of thought emanated in the literature suggesting that those firms who have viable investment opportunities should retain their profits and invest in such opportunities (Hakansson, 1982; Kalay, 1982; Nissim & Ziv, 2001; De-Angelo, De-Angelo & Stulz, 2006). This is based on the premise that when a firm declares cash dividends, it indicates the lack of such investment opportunities and could be considered negatively thereby resulting in negative abnormal returns in the market share.

In spite of the various studies that have been conducted on dividend policy, mostly from developed economies, no consensus has been reached regarding the determinants of dividend payout ratio of firms. Despite that, there is dearth of literature on the determinants of dividend payout ratio in the emerging market, particularly in Nigeria. Additional focus on the determinants of dividend payout ratio can be gained which to the best of our knowledge is limited. This study is different from the previous studies conducted in Nigeria on dividend payout ratio as all the prior studies follow panel data while this study is based on cross sectional data. The study is therefore attempts to add to the existing literatures by examining and identify the determinants of dividend payout ratio of listed firms in Nigeria.

The major objective of this study is to examine the determinants of dividend payout ratio of listed firms in Nigeria. The other specific objectives are to evaluate the impact of profitability, corporate tax, financial leverage and firm size on the dividend payout ratio of listed firms in Nigeria. The period under study is 2013 financial year. The period is chosen in order to examine the determinants of dividend payout ratio of those firms that are consistently paying dividends.

On the basis of the above objectives, the study formulates the following null hypotheses:

Ho_1: Profitability has no significant impact on dividend payout ratio of listed firms in Nigeria.

H_{O2}: Corporate tax has no significant impact on dividend payout ratio of listed firms in Nigeria.

H_{O3}: Financial leverage has no significant impact on dividend payout ratio of listed firms in Nigeria.

H_{O4}: Firm size has no significant impact on dividend payout ratio of listed firms in Nigeria.

The remaining part of this paper is divided into the review of empirical literature, theoretical framework, methodology, model specification, results and discussion, conclusion and recommendations, and a list references.

2.1 Review of Empirical Literature

Dividend payout decision is one of the finance options that is very controversial. No unanimous agreement has been reached regarding determinants of firm's dividend behavior. Dividend decision is important for both the shareholders and the companies. It is the decision of the company's managements to determine what proportion of earnings should be invested and what proportion should be distributed to shareholders as dividends. Debate about dividend payout decision is an ongoing issue in modern corporate finance literature. Early researches on dividend policy Lintner (1956), considers the distribution of incomes of corporation among dividend, retained earnings and taxes on American companies. He opined that dividend pattern is explained by the level of profitability of the company. This means that the companies that make more profit are expected to pay more dividends.

On the contrary, Miller and Modigliani (1961) proposed that dividend policy is irrelevant as firm's investment decision remain constant. They are of the opinion that the value of firm is not affected by the amount of dividend paid. This means that shareholders are not concern about the dividend decision as long as investment policies of firm remain unchanged. Miller and Modigliani propositions were based on the assumption of perfect capital market. However, in an imperfect market, investors prefer companies with a dividend pattern similar to their consumption pattern (Rehman and Haruto, 2012). This explains the reason many firms consider a consistent dividend policy as important factor in sustaining and maintaining their investor's confidence.

Fama and Babiak (1968), analyzed the lintner model on dividend policy and argued that company will attempt to increase the dividend only when they can be sustained in the future. This means that the higher dividend would only be announced if the company can sustain it in future. Furthermore, Black (1996) opined that companies don't know which dividend policy they must adopt as they are not aware of how many irrational investors are there in the market but a rational investor can maximize his profit by choosing the right dividend policy.

Mahira (2012) explore the determinants of dividend payout ratio of non-financial firms of Karachi Stock Exchange, earnings, firm size, growth, profitability, corporate tax and financial leverage were analyzed to see their impact on the dividend payout ratio. The results show that corporate size and firm size had significant impact on dividend payout. The rest of the explanatory variables were found to be insignificant in the context of Pakistani market. Similarly, Rehman and Haruto (2012) examined the factors that determine the dividend payout ratio in Pakistan's capital market. The authors use the cross sectional data of 50 listed firms in Karachi stock exchange for the year 2009. The results show that the profitability, debt to equity to ratio and market to book value ratio are significant determinants of dividend payout ratio. Relation of debt to equity ratio, profitability, current ratio and corporate tax were found to be positive with dividend payout ratio while operating cash flow per share and market to book value has a negative relationship with dividend payout ratio.

Custau and Cairatjon (2012) conducted another research regarding the determinants of dividend payout policy for large and medium firms in Sweden. The results indicated that the dividend payout ratio of large firms have a significant relationship to free cash flow, growth and risk value. Also from their study, it was deduced that the dividend payout ratio for medium firms have significant relationship to free cash flow, leverage and size.

In a comprehensive study on non-financial firms of Nairobi Securities Exchange, Maniagi *et al*. (2013) observed that business risk is also a strong determining factor of dividend policy. They are o f the opinion that size of firms and business risk increase the precision of the significant variables hence among the major determinants of dividend payout.

Anil and Kapoor (2008) examined the determinants of dividend payout ratio of the Indian Information Technology sector. The results show that cash flows, corporate tax, sales growth and market-to-book value ratio has no significant impact on the dividend behavior of the Information Technology sector. However, liquidity was found to have significant impact. In a similar study, Malkawi (2007) explored the determinants of corporate dividend policy in Jordan for the period 1989-2000. The findings from the study show that firm size, age and profitability of the firm are significantly influencing corporate dividend policy in Jordan. The study is in line with the agency cost hypothesis and is broadly consistent with pecking order assumptions.

Muhammad (2010) study tests the semi-strong form of market efficiency by investigating the reaction of stock prices to dividend announcements in Pakistan. His study analyzed cash, stock, and simultaneous cash and stock dividend announcements of 79 companies listed on the Karachi Stock Exchange from July 2004 to June 2007;

and evaluated abnormal returns from the market model for statistical significance using the t-test and Wilcoxon Signed Rank Test. The findings from his study suggested negligible abnormal returns for cash dividend announcements, which inferred that the reaction of stock prices to cash dividend announcements in Pakistan is statistically insignificant. His findings were consistent with that of Baskin (1989); but added more substance to the findings of Ball, Brown, Finn and Officer (1979).

In Nigeria, many studies were conducted in the area of dividend policy and its relationship with liquidity, earnings and stock market returns. The inferences in the studies of Oyejide (1975) and Soyode (1975) revealed the drastic change in the dividend policy of firms in Nigeria in the era of indigenization. From the era of indigenization and afterwards, firms in Nigeria continue to alter their dividend policies in order to ensure continual survival and maximize share price returns. Izedonmi and Eriki (1996) and Adelegan (2000) studied dividend policy of firms in Nigeria and how it is affected by cash flow and other factors. Their studies were able to unveil the significant impact of cash flow to dividend changes and the other factors that jointly determined the dividend policy of firms in Nigeria.

Mohammed and Hui (2008) examined the profitability and liquidity as determinants of dividend payout and found that profitability and liquidity are significant variables in determining the dividend payout and companies which are more profitable and liquid are in a better position to pay dividend. In a related study, Uwuigbe (2013) in his study observed that there is a significant positive relationship between firm's financial performance, size of firms and board independence on the dividend payout decisions of listed firms in Nigeria.

Musa (2009) examined whether current earnings, previous dividend, cash flow, investment and net current assets have significant aggregate as well as separate impact on the dividend policy of firms quoted on the Nigerian Stock Exchange. He used the five- variable parsimonious dividend policy model developed by Musa (2005). The study concluded that earnings, previous dividend and cash flow all have significant positive impact on the dividend policy of the quoted firms in Nigeria. The conclusion from the study further corroborated the works of Oyejide (1976), Izedonmi and Eriki (1996) and Adelegan (2000).

Okpara and Chigozie (2010) examined the determinants of dividend payout ratio in Nigeria using factor analysis and econometric techniques as determining factors. The study concluded that the current ratio, profitability and last year dividends are the significant determinants of dividend payout.

From the foregoing discussions and research findings, the literature on dividend policy has produced a large body of theoretical and empirical research, especially

following the publication of the dividend irrelevance hypothesis of Miller and Modigliani (1961). However, general consensus has yet emerged after several decades of investigation; and scholars often disagree even about the same empirical evidence (Al-Malkawi, Rafferty & Pillai, 2010).

2.1 Theoretical Framework

The study adopts the "Bird in Hand" Theory to underpin the work on determinants of dividend payout ratio of listed firms in Nigeria Stock Exchange. The theory is based on the fact that dividends affect the company's value and this assumption is represented by the popular 'bird in hand theory'. The theory is developed based on observation that dividends are positively correlated to the company's value. It is based on the expression that 'a bird in the hand is worth more than thousand in the bush'. The theory emphasized that investors are more willing to invest in stocks that pay current dividend rather than to invest in stocks that retain earnings and pay dividend in the future. The theory was first mentioned by Lintner (1962) which came up with a model. The underline assumption of Gordon's model is based on the idea of what is available today compared to what may be available in the future (Khan and Jain, 2008). This is evidence on the fact that there are uncertainty in the future regarding capital gains and future dividend.

3.1 Methodology

This study employed correlational research design. This is concerned with the collection of data for the purpose of describing and analyzing the factors that determine dividend payout ratio of listed firms in Nigeria. The data for this study were obtained mainly from secondary sources which were extracted from the audited annual reports and accounts of listed firms in Nigeria. Out of 180 listed firms in Nigeria only 44 firms paid dividend in year 2013, these firms constitute our population for the purpose of this study. This research work is descriptive and highly empirical as it embraces the use of regression techniques as tools of analysis.

3.2 Model Specification

In order to examine the determinants of dividend payout ratio of listed firms in Nigeria, a multiple regression model is built. The model captures the impact of profitability, corporate tax, financial leverage and firm size on dividend payout ratio of listed firms in Nigerian Stock Exchange for the year 2013. The regression model is stated thus:

$$DPR = \alpha + \beta_1 PROF_i + \beta_2 CTAX_i + \beta_3 FL_i + \beta_4 FSIZE_i + \varepsilon$$

Where: DPR is the dividend payout ratio and is measured as dividend for the year divided by profit after tax; PROF is the profitability and is measured as profit before interest and tax divided by total assets;

CTAX is the corporate tax and is measured as company's tax divided by profit after tax; FLEV is the financial leverage and is measured as ratio of debt to equity; FSIZE

is firm size and is measured by the natural logarithm of the book value of the firm's Total Assets; α is constant; $\beta_1 - \beta_4$ are the coefficient of the parameters estimate; and ε is the stochastic or error term.

4.1 Results and Discussions

This section presents the result of data analysis and tests of hypothesis formulated earlier in the paper. First, descriptive statistics, followed by the correlation matrix table and then the summary of regression result are presented and analyzed, and then policy implications and recommendation will be drawn and made from the findings of the study.

TABLE 4.1: Descriptive Statistics

Variables	Observations	Min	Max	Mean	Std. Dev	Skewness
DPR	44	0.08	0.99	0.4778	0.24711	0.184
PROF	44	0.03	0.69	0.1131	0.10905	3.696
CTAX	44	0.00	0.57	0.2372	0.13721	0.173
FLEV	44	0.27	0.91	0.6243	0.18957	-0.132
FSIZE	44	20.34	28.98	24.4708	2.34221	0.294

Source: Extracted from the SPSS output

Results from our descriptive statistics as shown in Table 1 present a mean dividend payout ratio (DPR) of about 0.4778 for the firms under consideration. This represents an average percentage distribution of about 48% for the period. While Profitability (PROF), Corporate tax (CTAX) were having value of 0.1131 and 0.2372 respectively. Financial leverage has an average value of 62% and Firm size value stood at 24%. The minimum value for DPR is 0.08 while the maximum is 0.99. It can be observed that Firm size has the highest standard deviation which means that firm size has the least contribution to the dependent variable (DPR). While on the other hand, Profitability has least value for standard deviation and thus shows its highest contribution to the dependent variable of the study. The skewness values were all close to 0 and 1 except for Profitability which implies higher than normal, hence the data is considered to be normally distributed. Therefore the result from the normality test substantiates the validity of the regression result.

4.2 The Correlation Matrix

Table 2 shows the correlation values between the dependent variable and the independent variables and also the relationship between the independent variables themselves. The values were extracted from the Pearson Correlation of two-tailed significant.

Table 2: **Correlation Matrix**

Variables	DPR	PROF	CTAX	FLEV	FSIZE

DPR	1				
PROF	0.078	1			
CTAX	0.367*	0.033	1		
FLEV	0.338*	-0.275	-0.015	1	
FSIZE	-0.027	0.863	-0.239	0.481**	1

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

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

Source: Extracted from SPSS output.

The result from Correlation Matrix Table 2 show that PROF, CTAX, FLEV are positively related with DPR while FSIZE are negatively related with the DPR of listed firms in Nigeria. Further empirical findings from Pearson correlation model indicate that Corporate Tax (CTAX) and Financial Leverage (FLEV) are significantly related to DPR at 5% level of significant which indicate a strong association. However, Profitability shows an insignificant relationship between itself and DPR. Amongst the independent variables, the relationship was a very weak one as expected except for only one independent variable that was significantly related which may not pose any colinearity problem. The tolerance values and the variance inflation factor are important measure of assessing multicolinearity between the independent variables in a study. The results indicate that variance inflation factor were consistently smaller than 10 indicating complete absence of multicolinearity (e.g. Neteret *et al*; 1996 and Cassey *et al*; 1999). This shows the suitability of the study model been fit with the four independent variables. Further, the tolerance values were consistently smaller than 1.00, therefore, substantiating the fact that there is complete absence of multiconearity between the independent variables (Tobachmel & Fidel, 1996).

4.3 Summary of Regression Result

This table presents the regression result of the dependent variable (DPR) and the independent variables of the study (PROF, CTAX, FLEV, and FSIZE). The presentation follows the analysis of the association and impact between the independent variables and dependent variable of the study and also the cumulative analysis.

Table 3: Summary of Regression Result.

Variables	Coefficient	t-value	p-value	Tolerance	VIF
Constant	0.255	0.638	0.527		
PROF	0.372	1.166	0.251	0.916	1.091
CTAX	0.609	2.423	0.020	0.930	1.075
FLEV	0.586	2.846	0.007	0.727	1.375
FSIZE	-0.013	-0.798	0.430	0.710	1.409
R	0.541				

R^2	0.293				
.ADJ. R^2	0.220				
F-Stat.	4.031				
F-Sig.	0.008				
D/W	1.792				

Source: Extracted from SPSS output

From the results in Table 3, the regression model is restated hereunder thereby reflecting the beta coefficients of all the independent variables.

$$DPR = 0.255 + 0.372\ PROF_i + 0.609\ CTAX_i + 0.586\ FLEV_i - 0.013\ FSIZE_i + \varepsilon$$

The cumulative correlation between the dependent variable and all the independent variables is 0.541 indicating that the relationship between DPR of listed firms in Nigeria and all the determinants used in the study is 54% which is positively and statistically significant. This implies that for any changes in the PROF, CTAX, FLEV and FSIZE of listed firms in Nigeria, their DPR will be directly affected. Consequently, further empirical findings of the regression analysis result for the listed firms indicate that from the model, R^2 which is the multiple coefficient of determination of the variables is 0.293. This implies that about 30% of the total variation in DPR of listed firms in Nigeria is explained by their Profitability, Corporate Tax, Financial leverage and Firm size. The F-statistic is 4.031 which is significance at one percent, this shows that the model of the study is fit and the independent variables are properly selected, combined and used. The Durbin Watson tests of first order auto-correlation which have a value of 1.792 indicates absence of serial correlation within the period of the study.

Profitability and DPR

From the table 3 above, Profitability has a beta coefficient value of 0.373 and a t-value of 1.166 with an insignificant value of 0.251.This implies that the profitability is positively and insignificantly influencing the DPR of listed firms in Nigeria. It therefore, implies that an increase in profitability may not have any significant impact on the DPR of listed firms in Nigeria. This is because some firms will prefer to rely more on internal funds or retained earnings and as a result the firms will have a tendency of paying less dividend and having more retained earnings. Profitable firms will prefer lower dividends. The finding is in line with the study conducted by Amidu and Abor (2006), Baker and Gandi (2007). However, it contradicts the study conducted by Rehma and Haruto (2012), Uwuigbe (2013). The result from this finding provides evidence for the failure to reject null hypothesis one of the study which state that profitability has no significant impact on DPR.

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Corporate Tax and DPR

From the table 3 above, corporate tax has a beta coefficient of 0.609 and a t-value of 2.423 which is significant at 5%. This implies that corporate tax is positively,

strongly and significantly impacting on DPR of listed firms in Nigeria. This outcome basically implies that for every 1% increase in corporate Tax of listed firms, the DPR will increase by 0.6%. This is based on the fact that firms that have an increasing tread in tax liability will have more preference for dividend payment .This simply suggests that an increasing tax lead to increasing in dividends payout ratio. The finding of this study can be corroborated by the study conducted by Amidu and Abor (2006), Masulis and Trueman (1998). However, it contradicts the study conducted by Anil and Kapoor (2008) which presents negative association between corporate tax and dividend payment ratio with an insignificant impact .The result from this finding provides evidence of rejecting null hypothesis two which states that corporate tax has no significant impact on dividend payout ratio of listed firms in Nigeria.

Financial Leverage and DPR

From the table 3, financial leverage expressed in terms of debt to equity ratio has a beta value of 0.586 and a t-value of 2.846 which is significant at 1%.This signifies that leverage is positively strongly and significantly impacting on DPR of listed firms in Nigeria. It therefore implies that as firm's financial leverage position changes say by one percent in average, the DPR of listed firms also change by 0.586 percent in positive direction. This outcome means that there is a significant positive association between firm's financial leverage and DPR of listed firms in Nigeria .This may be as a result of the fact that firms having high growth and dividend payout rate use more debt financing as compared to those with less dividend payment .The finding notwithstanding, is in line with the views of Rehman and Haruto (2012), and Pruitt and Gitman (1991), where they opined that a significant positive association does exist between firm's financial leverage and DPR of firms. However, the result contradicts the study conducted by Uwuigbe (2013) which disclose an inverse association between firm's financial leverage position and DPR of listed firms in Nigeria .The result of this finding provides evidence of rejecting null hypothesis three which states that financial leverage has no significant relationship with DPR of listed firms in Nigeria.

Firm Size and DPR

Finally, In addition to the aforementioned findings, table (3) also provides the result on the relationship between firm size and DPR of listed firms in Nigeria. From the table, firm size has a beta coefficient of -0.013 and a t-value of 0.798 with an insignificant value at 0.43. This implies that firm size is inversely and insignificantly impacting on the DPR of listed firms in Nigeria .This outcome basically implies that as the firms grow in size more funds would be sourced from both internally and externally to finance growth. This may suggest that dependence on funding increases as the firm's size increases, hence large firms prefer to pay less dividends. This outcome nevertheless, is in line with the views of Hafeez and Attiya (2008). However, the finding contradicts the views of Uwuigbe (2013), Shubiri (2011),

Anupam (2012), where they opined that there is a strong significant positive relationship between firm size and dividend payment decision Thus, the result from this finding provides evidence for the failure to reject the null hypothesis four which states that firms size has a significant impact on DPR of listed firms in Nigeria.

5.1 Conclusions and Recommendations

The paper examined the determinants of dividend payment ratio of listed firms in Nigeria. Profitability, corporate tax, financial leverage and firm size constituted the determinants and independent variables; while the dividend payout ratio of the selected listed firms represented the dependent variable. It was found that corporate tax and financial leverage have positive and significant influence on DPR of listed firms in the Nigerian Stock Exchange for the 2013 year at 5% and 1% level respectively. Also found in the study was that profitability is positive but not significantly influencing DPR of the listed firms in 2013. However, firm size was found to be insignificant in the context of determining the dividend payout ratio of the listed firms studied. Therefore the study conclude that firms that have higher profit and strong access to external loan will have more preference for dividend payment while large-size firm may prefer to pay less dividends.

The study, therefore, recommends that the listed firms in the Nigerian Stock Exchange should:

a) Always be conversant with the investors' preference when it comes to dividend payment Nigeria. Under normal circumstances, investors in Nigeria will demand dividend payment even when the taxation rates are high.
b) Optimally utilize the leverage component of their capital structure. The more the debt, the better the payout ratio based on the findings from this study.
c) Understand that the more they grow in size, the less their dividend payout ratio will be. This is because investors' in big firms prefer capital gain or appreciation in their share market value than the receipt of cash dividend.

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