

**KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY,  
KUMASI - GHANA**

**THE DETERMINANTS OF DIVIDEND POLICY IN GHANA: EVIDENCE  
FROM THE GHANA STOCK EXCHANGE**

**BY**

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**A THESIS SUBMITTED TO THE DEPARTMENT OF ACCOUNTING  
AND  
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MASTER IN BUSINESS ADMINISTRATION (ACCOUNTING)**

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## DECLARATION

I hereby declare that this submission is my own work towards the Master of Business Administration and that, to the best of my knowledge, it contains no material previously published by another person or material which has been accepted for the award of any other degree of the University, except where due acknowledgement has been made in the text.

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## DEDICATION

I dedicate this work to God Almighty and to my husband Mr. Kofi Kyere and children Emmanuel Obeng-Kyere and Samuel Ofori-Kyere.

# KNUST



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## ABSTRACT

Dividend payment is one of the main factors that drive shareholders to invest capital in business. This study seeks to find the determinants of dividend policy of listed companies on Ghana. To achieve this objective Panel data covering 2013/2014 financial year for 20 listed companies on Ghana Stock Exchange were sampled. The study adopted a quantitative method and used mainly secondary data. The study analyses a range of determinants of dividend payout: firm leverage (LEV), Liquidity (LIQ), firm size (SIZE) profitability (PROF), Taxation (TAX), Growth and Tangibility (TANG).

Ordinary Least Square Regression analysis is carried out to assess the main effect of the determinants of the dividend payout. Firm leverage (LEV), Liquidity (LIQ), firm size (SIZE) profitability (PROF), Taxation (TAX), Growth and Tangibility (TANG) can predict about 40% of dividend payout. The regression results also reveal that, firm's growth, firm's profitability, liquidity and corporate tax associate positively with dividend payment. The descriptive statistics indicates that, on average of about 75% of the listed firms on GSE have a policy to pay dividend with average dividend pay ratio been 28%.

The study provides evidence that profitability, liquidity and growth are the most important factors that affect dividend policy of companies in Ghana. So, companies should give consideration to profitability, liquidity and growth when they set dividend policy

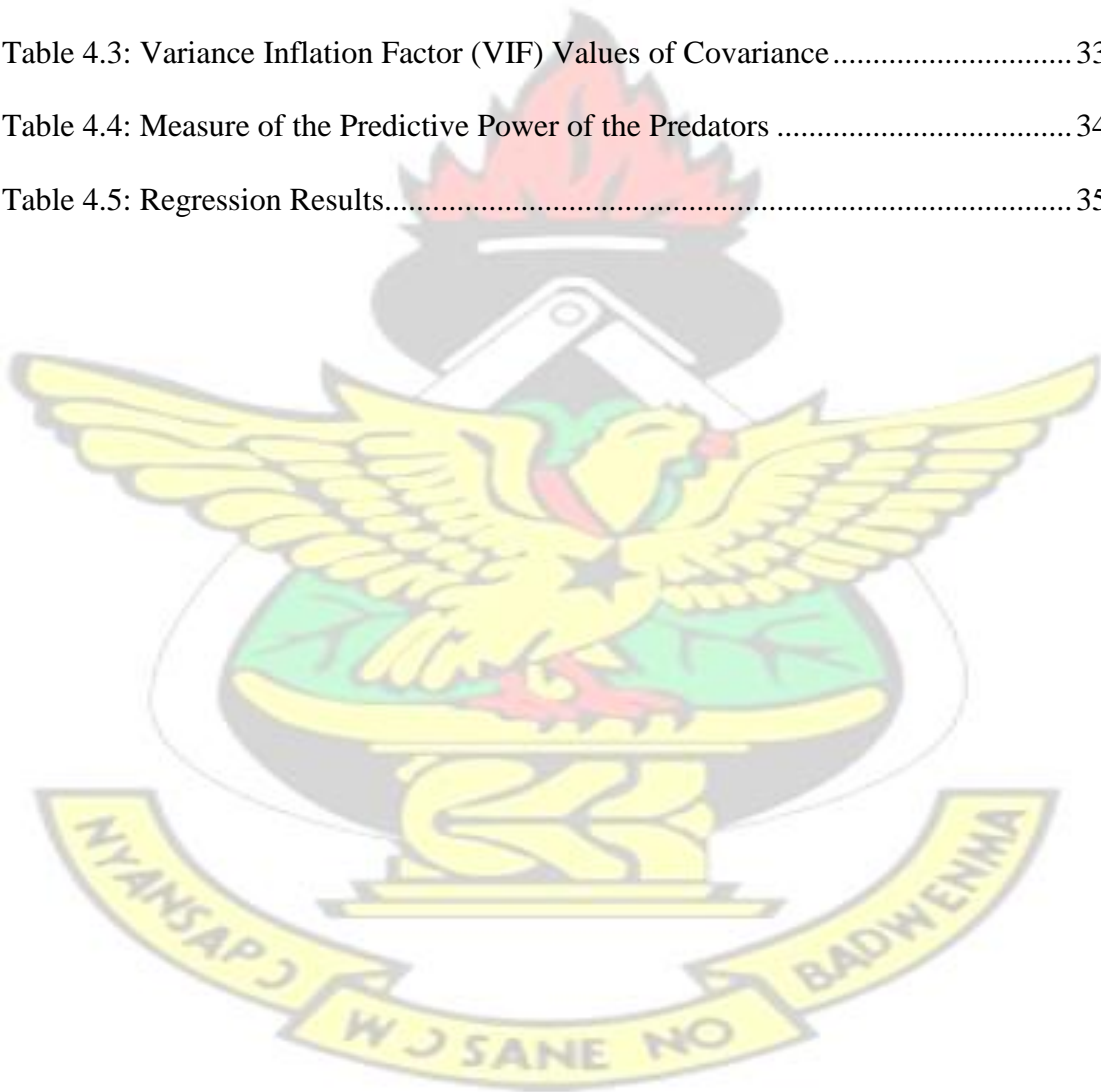
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# CHAPTER ONE

## INTRODUCTION

### 1.0 Introduction

Chapter one below presents the general introduction of the study. It starts with the background of the study, the problem statement, the objective of the study and the research questions that are to be addressed.

### 1.1 Background of the Study

Dividend payment is one of the main factors that drive shareholders to invest capital in business. According to Jo and Pan (2009), payment of dividend could serve as sign to the prospective investors that, the company is acting in accordance with good corporate governance practices. Practicing efficient corporate governance is very beneficial to firms as it will go a long way to help firms to raise fund from the stock market to support their operations that goes with attractive package.

Dispensing dividend to shareholders also makes firm look attractive to other prospective investors thereby increasing the company's share value. Thus firms that pay dividend would find it easily via issuance of new shares for expansion which would interns impact positively in profit and price per share.

According to Pandey (2005), building up shareholders' confidence and maximizing their wealth through profit making are part of their main corporate objectives. Other factors that influence the wealth of Shareholders are sales growth, increase in profit margin, capital investment decisions and capital structure decisions (Azhagaiah & Priya, 2008). Performance of a firm can therefore be measured as how a firm is able to transform the wealth of its shareholders and the ability of the firm to raise earnings

from capital invested by the shareholders. Dividend policy can change shareholders' wealth and with that regards change the firm's value (Baker et al., 2001).

It is against this background that dividend policy is perceived to be the paramount business decisions that managers in the corporate world face (Baker and Powell, 1999). It devours probable consequences for share prices and hence earnings to shareholders, the funding of interior progress and the equity via maintenances as well as it's gearing and leverage (Omran & Pointon, 2004). Frankfurtet & McGoun (2000) established that the dividend enigma, both as improving shareholders' wealth characteristics and on the other hand as a substance of policy, is one of the most thought-provoking subjects of today's monetary economics. Mizuno (2007) also confirms the assertion that companies own it as a responsibility to pay dividends to stockholders should in case the company cannot pinpoint any appropriate investments that would take along much higher proceeds than otherwise projected by shareholders.

A lot of dividend models that have been developed by several researchers (Stulz, 2000; Pandey, 2005). These models perceived dividends as either material or immaterial in coming out with any corporate financial verdicts. Miller and Modigliani theory (Stulz, 2000) put forward that, in a capital market where there are no inadequacies like, transaction costs, taxes, information asymmetry and agency costs; the dividend policy becomes immaterial to a firm for its share price. This suggests that corporate directors have no reason to alter the value of their firms by altering their dividend plan.

The decision to pay or not to pay dividend by firms is yet to be justified by researchers. The controversy is that some firm deemed it appropriate not pay dividend at a particular

point in time. According to Amidu and Abor (2006), firms' dividend policy is subjective hence making it problematic to come out with a definite explanation as to why a firm should pay or not to pay dividend. The global business competition also makes it very complex and difficult for firms to determine a particular factor that influence dividend intention and payment.

Brook et al (1998), affirm that, firm dividend intention and payment is not based on a distinct objective, that the reason of paying dividend is much affected by several goals.

Several researchers' have tried to use as many different methods, models and theories ranging from less complex to the most complex in order to ascertain the predators expected to have influence the behavior dividend policy and dividend payment. Conversely, most the contemporary studies on dividend policy and payment have been geared towards the western world where it is perceived that their dividend practices have been focused on developed countries where their corporate features are much better than that of the developing world. The most prominent studies that gives much attention to Ghana the embryonic market in Africa, is the empirical studies conducted by Amidu and Abor (2006), on the determining factor of dividend payout ratio using a six-year period data from 1998 to 2003 which served as the key paper guiding this study to reflect the current stage of dividend policy in Ghana.

Marfo -Yiadom Agyei (2011) on the other hand considered the dividend policy and payment of both listed and non-listed financial institutions in Ghana. Currently, the corporate landscape has undergone tremendous change as compared to 10 years back. It is against these backgrounds that regards that this study examines the influence firms' dividend intention and dividend policy using the most current data from the Ghana Stock Exchange. The study is therefore expected to be of good help to assist firm

managers in Ghana and emerging economy as a whole in coming out with more efficient in developing appropriate and comprehensive dividend and dividend policies and strategies. Also, it will guide investors in developing their investment portfolio in the financial sector.

## **1.2 Problem Statement**

The issue of firms' dividend intention and dividend payment has been a topic for discussion in this contemporary business environment. However, there has been no comprehensive conclusion on what actually trigger firms to pay dividend to their shareholders. Many attempts have been made by several researchers to analyze some factors that are expected to have influence firms' dividend payment behavior.

According to Brealey and Myers (2005), firms' dividend policy is viewed as one of the unsolved problems in the business environment. Their explanation is not different from that of Black (1976) who claimed that, looking at dividend picture is like a puzzle, thus at some point in time it becomes very difficult to gets pieces deemed fit it in the puzzle.

That notwithstanding with the bundles of studies (Arnott & Asness 2003; Farsio et al 2004 and Nissim & Ziv 2001) in the system, the problem of corporate dividend policy is yet to be solved. Meanwhile, the behavior of corporate dividend policies does not only fluctuate over time but also cut across industries and countries especially between banking, non-banking industries, and developed, developing and emerging capital market.

With regards to the above premises, the question then is what account for the fluctuations of the dividend policies within and across industries? Evidence gathered from the empirical literature suggests that, there is no identified factors that are believe to be influencing corporate dividend policy.

Contrary to the studies conducted by Amidu and Abor (2006), this study considers the current status of listed firms' intentions to pay or not to pay dividend and what is actually paid and the factors that drive the dividend payment behavior. Their prior studies fail to examine the firm's dividend intention, instead only dividend payout is assessed. Also most of the prior studies examine dividend payout for a period of years (usually five years) which may not reflect the current situation.

This present study builds up on the prior studies (Amidu 2007, and Amidu and Abor (2006)) by providing the current of factors that affects dividend policy behavior in Ghana for the period under study.

### **1.3 Objectives of the Study**

The purpose of this study is to examine the factors that determines of dividend payment behavior of firms listed on the Ghana Stock Exchange. Based on the broader objectives the study seeks to achieve the under listed specific objectives.

1. To establish the dividend payment behavior of listed firms in Ghana Stock Exchange
2. To assess the factors that influences the dividend payment behavior of listed companies in Ghana.

### **1.4 Research Questions**

1. What are the dividend pay policies of listed firms on Ghana stock exchange?
2. What variables inform listed companies in Ghana on their dividend pay policy?

### **1.5 Significant of the Study**

Firstly, this study will update the current Ghanaian researcher and provides a current analysis of business environmental and dividend pay policy between the periods 2013 to 2014 of the listed companies in the Ghana stock exchange (GSE). It is envisaged that

findings from the study may reveal factors that influence the listed firms' dividend pay policy in Ghana. This exposition would help the prospect investors and the existing shareholder on their investment decisions. It may also serve as a reference material for policymakers to consider in the design of programs to pursue at corporate governance level in Ghana.

Also, this study will extend prior research on determinants of dividend policy in Ghana in two circumstances:

First, this study will help overcome the inadequacies stated by prior studies for the larger sample sizes employed which will intern enhance the accuracy of the study discoveries. Findings of the study serve as useful information to financial managers, financial researchers and policy makers in the corporate companies to aid in decision making relation to dividend payment behavior. Apart from contributing to the existing literature on dividend policy and to the body of academic knowledge for financial and accounting students, the study will also identify other areas that need further research for researchers to pursue further studies in the corporate finance.

### **1.6 Delimitation of the study**

This study basically attempts to examine some of the variables that determine the behavior of firms' dividend pay policy in Ghana. To accomplish the objectives of the study, 2013/2014 financial report (which comprise of statement of financial position, statement of comprehensive income and statement of cash flow as well as notes) of listed firms was analyzed to have reflection of current status dividend pay policy in Ghana. In addition, the study considered a total number of 20 listed firms in the Ghanaian stock exchange market. The choice of the firms arises based on the frequency

in which dividends are paid to shareholders and the availability of ownership structure data for the period under consideration.

### **1.7 Limitation of the study**

There was inadequate data for some of the listed firms on the GSE for the period under review especially recent data. Furthermore, there was a limited budget for the study. Also inadequate time was constraint to the study. However, serious effort was made to minimize the impact of these limitations on the study.

### **1.8 Organization of Study**

The study is structured into five main chapters.

The first chapter of the study introduces the research. Included in this chapter is the background to the study, objectives and research questions, the scope of the study, as well as the relevance of the study. This chapter is really important because it sets the study in perspective and helps to correct any deviations that may occur throughout the study.

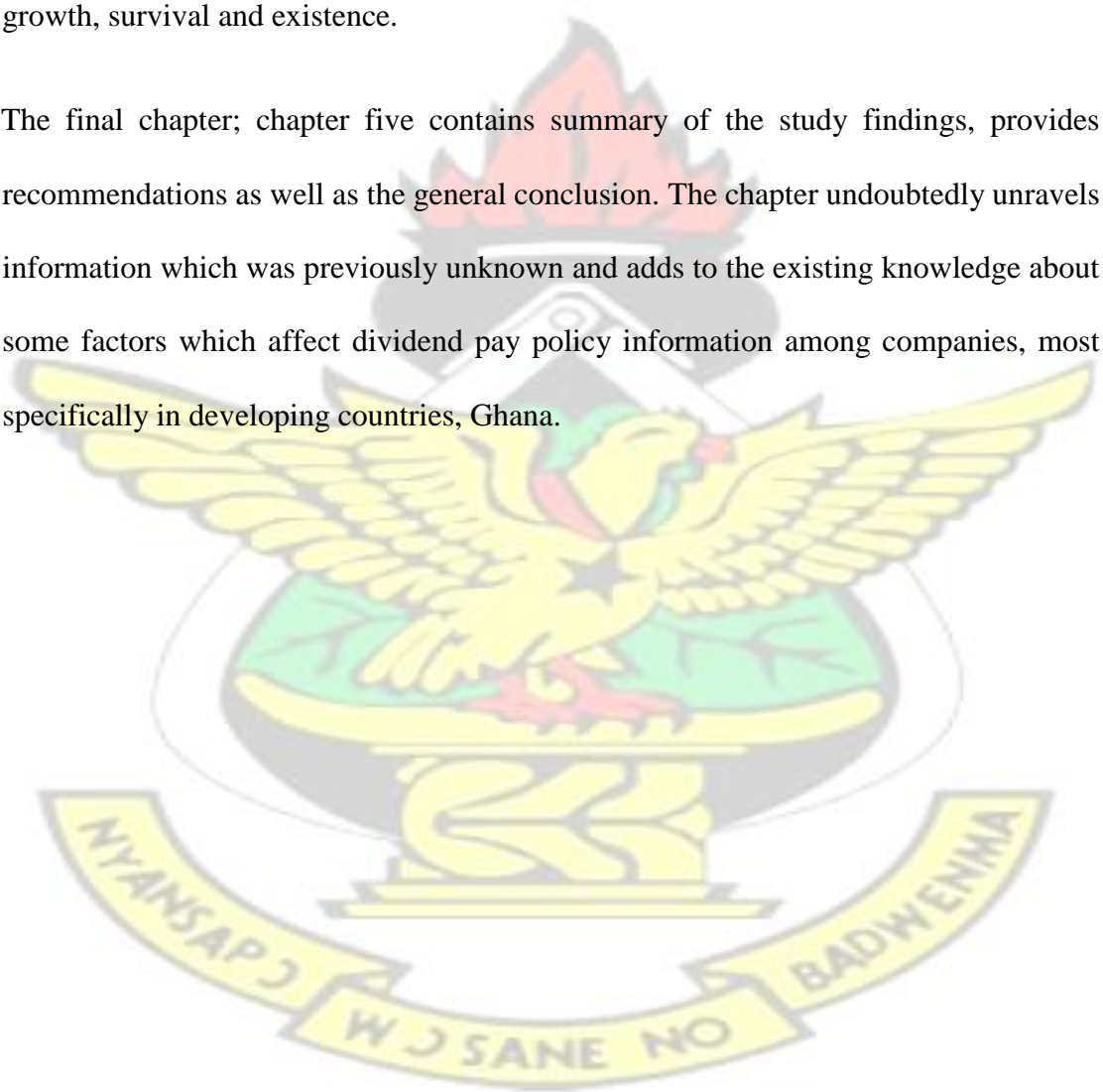
Chapter two presents a review of literature about the study. It provides scholarly works on corporate governance, financial reporting and dividend policies and other experiences of financial accounting communication of listed companies in specific countries. The research also developed hypothesis of determinants of dividend. This chapter provides conceptual and theoretical understanding about global perceptions on dividend pay policy.

The third chapter elicits the profile of the study area, research design, the data collected instruments and sources of the data. The sampling techniques, key variables of the study, among other methods of data analysis are contained in this chapter. The chapter

is basically essential as it provides a guide to the conduct of the survey. Chapter four presents the presentations, analysis and discussions of the research objectives.

It highlights the relationship between the dividend pay policy and firm size, profitability, leverage, ownership structure, audit firm size, among others. The chapter is very important because it primarily provides answers to the research questions. This chapter also forms the basis for making recommendations to ensure higher business growth, survival and existence.

The final chapter; chapter five contains summary of the study findings, provides recommendations as well as the general conclusion. The chapter undoubtedly unravels information which was previously unknown and adds to the existing knowledge about some factors which affect dividend pay policy information among companies, most specifically in developing countries, Ghana.



## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

Researchers and various scholars throughout the years have applauded the immense contribution of literature reviews in the overall research process and this study supports this appraisal. Saunders, Lewis, and Thornhill (2007); cited in Agyei-Mensah (2012a: 2299) assert that ‘reviewing literature critically offers the basis on the study is build’. The authors therefore concluded that the main rationale for reviewing literature helps to develop an understanding and trend of other prior studies that have emerged over the time which are of prime important for the study.

In another study, Kumar (1999) observes that literature review mainly allows the researcher to place his or her study in the contextual scope of the previous research. The author also found that reviewing literature provides the research with an insight into the type of research methodologies and designs that have been used in the area and this will primarily help the researcher to select and adopt an appropriate methodology.

The main purpose of this chapter is to discuss various concepts and theories, which provide underlining explanations of what accounts for firms’ dividend policy.

#### **2.1 The Concept of Dividend Policy**

Many reasons exist why firms should pay or not to pay dividend. Yet fighting out why companies pay dividends and investor pay attention to dividend (dividend puzzle) is still problematic (Amidu and Abor, 2006). Aivazian and Booth (2003) examine dividend puzzle and find out Dividend policy has become a major decision in corporate finance in recent that, some vital questions under dividend puzzle is still unanswered. Thus setting corporate dividend policy remains problematic and is the onus lies on the

decision makers' subjective judgments. There has been an emerging consensus that there is no single explanation firms' dividend behavior. According to Brook et al. (1998) there is no reason to believe that corporate dividend policy is driven by a single force.

Two decades ago, Black (1976) wrote 'the harder we look at the picture of picture, the more it seems like a puzzle with pieces that just don't fit together'. The situation is pretty much the same today.

In a recent survey of firm's dividend behavior, All and Michaely (1995) concluded that more empirical and theoretical models on the discipline of dividend is required before a consensus can be reached. The fact that a major textbook such as Brealey and Myers (2005) list dividend as one of the ten (10) unsolved problems in the corporate finance is in line with this conclusion.

The first empirical study of dividend policy behavior was initiated by Lintner (1956), who surveyed corporate managers to understand how they arrived at their dividend policy in their firms. Lintner established that an existing dividend rate of a firm a yardstick dividend rate firms a benchmark for the management. Firms' management usually displayed a strong reluctance to reduce dividends. Lintner opined that managers usually have reasonably definitive targeted payout ratios. Over the years, dividends have increased slowly at a particular speed of adjustment, so that the actuals payout ratio moves closer to that target payout ratio.

Bond & Mougoue (1991) re-examine the partial adjustment model of dividend payment suggested by Lintner. They established that when earnings follow a linear autoregressive process, then there are many combination of targeted payout rate and the speed of adjustment that would fit the same earning stream and dividend stream.

They concluded that, for firms with auto-correlated earnings, Lintner's partial adjustment model gives the results that are not unique; thus for such firms the partial adjustment model is not succinct description of dividend policy.

## **2.2 Theoretical Review**

For the period of about 50 years ago several theoretical, models, explanations and empirical studies have been done leading to several outcomes; the fluctuations in dividend payout ratio affect market value of firms' dividend behavior. Nevertheless, it can be deduced that the pragmatic indication on the determining factor of dividend policy is unfortunately very mixed. Besides, there are many models on why and when the firms pay dividends. Many of these theoretical principles have found underlying why firms pay dividend and these theories can be explained by either in terms of information asymmetries, the tax-adjusted theory, or behavioral determinants (Amidu and Abor, 2006). As indicated, numerous dividend policy theories, explanations and models exist, this study discuss the following;

### **2.2.1 Tax Preference Theory**

The tax preference theory suggests that, dividends are taxable as compared to a capital gain which is not taxed directly until stock is sold. For that matter shareholders prefer to retain their earnings to paying dividend which will be taxed. The benefits of this treatment however may leads to non-payment of dividend or less dividend payment.

Miller and Scholes (1978) provide an ingenious scheme to convert dividend income to capital gains income. Their work provides a fresh rationale for the dividend irrelevance position. Their argument is based on a collective income tax position which allows interest expenses to be deducted from income before applying tax. Miller and Scholes showed that by borrowing an appropriate amount, the interest amount can be set off

against the dividend income in a way that reduces the taxable income to nil. Miller and Scholes content that the increase in risk due to borrowing can be countered by investing the borrowed amount in a risk-free insurance contract, where the amount accumulates at the risk free rate. In this way, they argue that, the shield on the interest expense can be used to neutralize the tax incidence on the income without incurring any additional risk due to increased borrowing.

Peterson et al (1985) looked at the extent to which investors attempt to shield their dividend income from taxation. They looked at returns selected from individual income tax returns filed. They found out that about 85% of the field returns report no dividend income. They also found out that about 56% of those assesses reporting dividend income, do not take advantage of interest deduction schemes.

### **2.2.2 The Agency Theory**

This theory was proposed by Jensen and Meckling (1976) and is based on the disagreement between firm managers and the investors and the fraction of equity controlled by insider possession should impact on the dividend payment. Miller and Scholes (1978) establish that the impact of tax preferences on clientele and postulate several tax rates on investors and capital gain leads to different clientele.

### **2.2.3 Signaling Theory**

The signaling theory was propounded by Jensen and Meckling (1976) in the early 1980s which reveals that, information disproportionateness in the middle of managers of a firm and shareholder permits firm managers to use dividends as a gismo to signal secluded information concerning firm's performance to prospective investors.

Contrary to the findings from Miller and Modigliani (1961) dividend irrelevance proposition are obtainable only when the assumption underlying the setting of Miller and Modigliani are debased. The tax-clientele hypothesis uses the market imperfection of differential taxation of dividends and capital gain to explain the dividend puzzle. Bhattacharyya (1961) develops another explanation for the dividend policy based on asymmetric information. Managers have private knowledge about the distributional support of the project cash flow and they signal this knowledge to the market through their choice of dividends. In the signaling equilibrium higher value of the support is signaled by higher dividend. In other word, the better the news, the higher is the dividend.

Heinkel (1978) consider a set up where different firms have different return generating abilities. The information is transmitted to the market by means of dividend, or equivalently, from investing at less the first best level. In the equilibrium of Heinkel's model, the firm with less productivity invests up to its best level of investment, and declares no dividend, while firms with higher productivity invests less than its best level and declare the difference between the amount raised and the amount invested as the dividend. The firm with higher productivity acts in this way in order to distinguish itself from the firm with less productivity. Dividend are still irrelevant in the sense that both firm types raise an extra amount with a new issue to pay an extra amount as a dividend with no signaling effect.

The signaling cost in this comes from reduced investment from first best level. In contrast, the signaling cost in Bhattacharyya (1979) comes from taxation and nonsymmetric cost of raising fund in the capital market.

## **2.3 Empirical Review**

Studies on dividend policy have received the needed much attention in the contemporary business, finance and accounting studies. Several scholars and authors have therefore undertaken studies to revitalize the importance and benefits of dividend payout policy in corporate entities. Literature has therefore provided several factors which necessitate the need for corporate bodies to pay dividends to respective managers and shareholders. Among these determinants are profitability, company's size, leverage, business risk, liquidity, collateral capacity, business growth, age of a firm, the current earnings of the firm or business, the type of business ownership structure (Amidu & Abor, 2003; Baah, Tawiah, & Opoku, 2014; Demirgüneş, 2015; Kaźmierska-Jóźwiak, 2015; Kumar & Waheed, 2015; Mehta, 2012; Nuhu, 2014; Thi & Trang, 2012; Tsuji, 2010). The individual determinants are summarized below.

### **2.3.1 Profitability**

The concept of profitability denotes the capacity of companies or businesses to pay profit. Thus, the residual of revenue after all expenses (both direct and indirect) have been made by the company. With reference to dividend payout determinants, (Demirgüneş, 2015; Mehta, 2012) point that, profitability is arguably the main determiner of dividend payout policy. The author therefore observed that, profitability is a primary indicator as to the extent, capacity and the level of dividend payout. The findings from the author's study revealed that, profitability has a direct significant and positive effect on dividend pay. However, Demirgüneş (2015) emphasizes that, such target dividend payout ratio is directly related to the duration of activities of companies. Thus, in the short-run operations, profitability is envisaged to have a positive and significant correlation on the dividend payout. This might not be the case in the long-run, as companies may be unwilling to sustain the dividend payments in the long-run,

hence companies profitability levels in the long run have significant but negative relationships with dividend payout ratios (Demirgüneş, 2015). Nuhu, Musah, & Senyo, (2014) and Thi & Trang (2012) also maintain that profitability levels of businesses have direct, significant and positive relationship on dividend payouts.

Thus, the higher the company's profit or retained earnings the higher the dividends received by shareholders.

In another study, Maladjian & Khoury (2014) found a negative and statistically significant correlation between profitability and dividend payout policy on the Lebanese listed banks. According to the author however, such negative relationship is as a result of the political instability of Lebanon. In explaining the author's view, such conditions compel the banking firms to use the surplus retained earnings and profits into profitable ventures primarily to redeem and improve the economic conditions of the country. On the other hand, banks also allocate the surplus retained earnings and profits in establishing new branches and outlets to increase their net earnings (Maladjian & Khoury, 2014). Such conditions, undoubtedly affect the relationship between firms' profitability levels and dividend payout. Amidu & Abor (2006) cited in (Musiega, Alala, Douglas, Christopher, & Robert (2013) maintain that firms mostly invest a residual of the retained profits in the acquisition of assets rather than rendering of dividend payments to shareholders and investors. In short, the greater the firm's retained earnings, the lower the dividend payout. The researchers' outcome revealed a negative relationship between profitability and dividend payouts.

### **2.3.2 Leverage**

Financial leverage can simply be defined as the use of debt primarily to finance a firm's asset. In companies and most firms, leverage or debts are used to increase the potential returns of an investment. Rozzef (1982) cited in Kaźmierska-Jóźwiaka (2015) posits

that companies who experiences high levels of leverage undoubtedly increase the operational and transaction costs of businesses. According to the author, companies with high leverage ratio possess high fixed payments for the use of external financing sources. The author finally observed that the higher the leverage of companies, the lower the level of dividend payout, hence leverage is negatively correlated to dividends payout in organization.

Nuhu (2014) further postulates that, there is high pressure on the liquidity patterns of companies' who finance the major activities from debts. This is because 'debt principal and interest payments reduce the ability of firms to have residual income to guarantee dividend payment' (Nuhu, 2014:p.232). This debt will subsequently affect negatively, the amount of dividend payable to creditors and company shareholders. However, the study by Maladjian & Khoury (2014) on the determinants of dividend policy in listed banks of the Lebanese indicated that financial leverage has positive but insignificant relationship with dividend policy. The authors further posit that, though the financial leverage of companies has a positive correlation on dividend payout policy but cannot be termed as an influential factor. Its positive significance is manifested in the ability of companies to use debts to redistribute dividends to their respective creditors and shareholders.

### **2.3.3 Liquidity**

Liquidity can also be said to be one of the major determinant of dividend payout policy in major companies. Financial liquidity as used frequently in corporate organizations may be referred to as the ease with which companies can be solvent.

That's the ability to of the company to honor its financial obligations when they become due through the use of the disposable liquid assets.

Badu (2013) found that companies in Ghana are obliged by the Ghana's Company code, Section 71 of the Company's Act of 1963, (Act 179) not to pay dividends to its shareholders and investors until that company is able to render its debts whenever they are due. Also, with particular emphasis on the Section 30(1) of the Banking Act of 2004 (Act 673), the author further observed that, a bank cannot pay dividend on its shares unless that bank has completely written off all its capitalized expenditure; made required provisions for non-performing loans and other erosions in asset values; supplied the minimum capital adequacy ratio requirements; completely written off all its accumulated operating losses from its normal operations. These statements specifically signify the need for companies to be solvent in treating their financial operations and activities.

Mehta (2012) therefore asserts that financial liquidity or cash flow is not an important determiner of dividend payout policies among companies in UAE, as liquidity has a positive but insignificant relationship with dividend policy. However, Hafeez and Attiya (2008) as cited in Musiega et al. (2013), on their study on the determinants of dividend payout policy among non-financial firms on Nairobi Securities exchange, revealed that liquidity of firms has a positive and significant effect or influence on the level and extent of dividend payout policy. Thus, firms with high levels of liquidity pay more dividends than firms with low market liquidity. The signaling theory also supports the positive and significant relationship between company's liquidity and dividend policy.

#### **2.3.4 Collateral Capacity**

Bradley et al, (1984) cited in Badu (2013) observed that in the globally changing business world, companies with considerably higher percentages of their assets

(tangible assets) exhibit a better position with respect to the capital creation and accumulation through debt.

The authors further believed that, these companies receive cheaper cost which will help reduce the exerted pressure on the use and management of the internally generated funds. They therefore concluded that companies with much collateral capacity pay have the tendency to pay more dividends; hence collateral capacity is positively and significantly related to a firm's dividend policy. Business firms that possess most of its assets as tangible attracts more investment due to the efficient collateral capacity.

### **2.3.5 Growth**

Literature has outlined that the growth of companies with respect to their revenue growth. Firms with higher sales or revenue growth tend to pay lower dividends (Badu, 2013). In the view of the author, the demand for capital in companies will be on an increase as the company experiences fast rate of growth. Accordingly, the pecking order theory suggests that new, better and innovative projects are to be financed by firms, placing much emphasis on the information sensitivity sources. The more or higher growth opportunities a firm witness, the likely possibility of retaining greater earnings and revenue portions of projects and subsequently affecting the dividends paid to shareholders and investors (Badu, 2013).

Numerous research works have made consented efforts to analytically distinguish between investment opportunity ratios and the growth of non-growth firms (Gavers and Gavers, 1993; Moh'd et al., 1995). These studies established that growth firms, as compared to non-growth companies, showed a lower debt to trim down their dependence on external financing, which is costly in many cases.

This explanation is in line with the findings made by Myers (1984), who postulates that policies with regard to investment can be replaced for the dividend payouts because such investments reduce the cash flow and also minimize any agency problems encountered by businesses. However, the study by La Porta et al. (2000) on high legal protections in some countries revealed that, firms with fast rate of growth and economic expansion pay low dividends to their shareholders, as they were legally protected while firms with low legal protection in other countries pay high dividends purposely to develop and sustain a goodwill, even when they had better investment opportunities

There is also a direct and positive relationship between growth and financing needs of businesses. Thus, rapidly growing firms possess external financing needs. This is because, working capital of companies exceed the margin cash flows from new sales (Sajid et al, 2012). With reference to this, the authors observed that firms with recognizable slow growth and low revenues pay higher levels of dividends to their shareholders to protect and maintain their interests as well as serving as a call to other respective individual investors and shareholders.

### **2.3.6 Age of Business**

The age of firms or businesses denotes the period or duration in which the firm has conducted businesses or has undertaken operational activities with their stakeholders. Badu (2013: p.187) maintains that ‘companies that have been in business for so long times are positioned to have a good reputation for themselves against companies with short period in business’. In explaining the author’s view, the effective and efficient management of a firm’s reputation and goodwill help in the attraction of cheaper credit for the expansion and investment avenues of the business. This is because financial

institutions, often at times, use the reputation and goodwill possessed by firms and companies to evaluate credit worthiness. Badu (2013) citing Diamond (1989) found that there is a negative relationship between age and dividend policy. However, Badu (2013) believes that firms which have been in operations for long and as such aging, tend to have less growth opportunities to fund mainly, because those firms may wither be at the maturity or decline stage of the business life cycle. In his study, Badu (2013) finally observed that the age of a firm has a statistically significant and positive relationship on the level and extent of dividend paid.

### **2.3.7 Size of the Firm**

How large or small a firm is also affects the rate and level of dividend payouts. Musiega et al. (2013) studied the determinants of dividend payout policy among nonfinancial firms in Nairobi, Kenya. The authors observed that larger firms tend to pay more dividends than smaller firms. This is because, the larger the firm, the more investment opportunities it possesses. They therefore pay higher dividends to their respective shareholders in order to increase their capital base and call for higher business performances and growth. In summary of their findings, the size of a firm has a positive relationship with the dividend payout policies in companies.

Analytical observations and findings from UAE companies as conducted by Mehta (2012) revealed that the size of a firm has a significant positive correlation with dividend payout. Hence, the larger-sized firms pay out more dividends as compared to the counterparts, smaller-sized firms because they are more competitive, have readily access to capital, better credit rating, more customers and therefore experiences higher profitability margins. In another studies, Arif & Akbar (2013); Baah et al. (2014) &

Maladjian & Khoury (2014) also maintain that dividend payouts have significant positive correlation with the size of a firm.

### **2.3.8 Current Earnings**

The empirical analysis by Adaoglu in 2000 among firms listed on the Stock Exchange of Istanbul, Turkey reveals that current earnings is key in determining the amount of dividend shareholders receive. In another study, Eriotis (2005) found that in Greek, major firms evenly distribute the targeted payout ratios which are mainly influenced by the level of earnings the companies receive or gain with respect to the specified accounting year. In examining the key determinants of dividend payout policy of the Tunisian Companies listed on the Stock Exchange, Naceur and Goaid (2006) found firms with high profitability margins and ratios as well as stable and reflective current earnings can undoubtedly manage effectively, the larger cash flows and because of these, dividend payout policies are high. Moreover, the authors positioned that readily, reliable and fast growing firms distribute larger dividends as a pre-condition for the attraction of other potential investors and shareholders. These dividends are as a result of the current earning enjoyed by the companies.

However, Ahmed and Jayad (2009) were of a different opinion. According to the author, the payments of dividends are contingent on cash flows, which depend on the ability and capacity of the company to pay shareholders dividends other than the current earnings of the company.

The author therefore concludes that current earnings of companies do not necessarily reflect on the ability of companies to pay out dividends and therefore its relationship is insignificant.

### **2.3.9 Ownership Structure of the Company**

According to Stouraitis and Wu (2004) as cited in Syed & Wasim (2011), institutional investors are crucial in undertaking effective, efficient and structure monitoring management practices and the evaluation of better and reliable information for the company's successes than individual investors. This is partly due to their size of investment, disposable resources. Empirically, Hamid and Asma, (2012) observed that management ownership and structure are negatively correlated with the extent of dividend payouts on the Emerging Markets KSE-100 Index of Pakistan. This is because an increase in the proportions and levels of managerial share ownerships among firms reduce the dividend payout ratios.

Khan (2006) assessed the managerial ownership structure among 330 large listed firms in the United Kingdom, the results of her findings revealed a somewhat negative relationship between dividends payout and the structure of ownership. Sharma (2006) explored the link that existed between dividend payout policy and corporate governance in Indian firms within the periods of 1994 and 2000.

The author significantly made a conscious effort to examine the differences in dividend behaviour with particular emphasis of the firm's financial arrangement, investment opportunities, the historical underpinnings of dividends, the trend analysis of earnings, and the managerial ownership structure. From the author's findings, there is a positive relationship between dividend payouts and the ownership structure of corporations and directors, but squared corporate ownership was negatively related with dividend but he found no evidence of relationship of foreign ownership and dividend payout. Subsequently, Al-Kuwari (2009) found a statistically positive relationship between

dividend policy and that of ownership structure among companies listed on the stock exchanges of GCC countries.

### **2.3.10 Business Risk**

The risk of business is yet another determiner of dividend payout policy in major companies and firms across the globe. Several proponents and researchers have sought to establish the relationship between the business risks and the level as well as the extent of dividend paid to shareholders. The study by Turki & Ahmed in 2013, empirical evidences from the Saudi Arabia on the determination of dividend policy revealed a negative correlation between market or business risk and that of dividend paid.

The author, however, attributed such negative relationship to the fall in the stock market of the country in 2006 from indexes of 20,000 to 5,000. On the other hand, findings from Anupam (2012) revealed that business risk can be considered as a significant determinant of dividend payout. Also, Amidu & Abor (2003) found that, business risk has a negative relationship with dividend payout ratios of companies in Ghana. According to the authors, such negative relationship is insignificant. Consequently, Al-Kuwar (2009) observed from GCC countries that the common transaction cost variable, business risk, can be considered as insignificant variables in determining dividend payouts.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.0 Introduction**

This chapter of the studies covers the methodology of the study. It takes into accounts the whole research design which consists of the methodology adopted in the sampling procedure, the sampling size of the study, the nature and source of data and the way these data were gathered and analyzed. The purpose of the research approach and strategies of the study are also discussed in this chapter.

#### **3.1 Research Design**

The study adopted explanatory research approach. The explanatory research presents data relevant for cause-effect relationships. It is therefore the best approach to adopt in explaining how events occur by extension what factors determine dividend policy of the listed firms on Ghana Stock Exchange.

The study employed secondary data in a quantitative form. The nature of the data made it possible for quantitative data analysis tool to be used to analyze the data.

#### **3.2 Data Collection and Data Source**

Data for research analysis can be categorized into two (2) folds, these includes primary data and secondary date. Primary data gathered for the purpose of a particular study whiles secondary is not usually gathered for a particular research purpose however, could be adopted for use by a particular research if the researcher deemed it necessary.

In this study secondary data was used to develop the study models and relationships.

Data was sourced from annual financial report from sample-listed company. Data covering the area of Statement of comprehensive income, Statement of financial position and statements of cash flow was assessed via National Dairies as well GSE

website. The category of data gathered for the study covers both quantitative and qualitative forms. Access to the data was not difficult; as listed companies are required by law to publish the financial report annually their strategic distribution plan.

### **3.3 Research Population and Sample Size**

The sampling frame of the study consists of all the 35 listed firms on the Ghana Stock Exchange (GSE). This will undertake under the period from 2013/2014 financial years.

This period was chosen to reflect the current level of dividend policy and also to emphasis on the cross-sectional disparity of dividend policy determining factor rather than their time-series disparity among companies in Ghana. In all twenty (20) companies were selected used for the study.

### **3.4 Sampling and Sampling Technique.**

The research utilized only probability sampling techniques. Simple random and stratified sampling technique was employed to select companies for the study. The heterogeneous group was divided into subgroups (strata), which comprises of different industries. Within each sub-group (stratum) random table was used to select 20 companies randomly for the study.

### **3.5 Research Variables**

The dependent variables were firm's dividend intension ( $d/intension$ ) and dividend payout ( $d/payout$ ) measured by assessing the dividend behavior of the sample firms.

A dichotomous scoring scheme was utilized whereby a firm scored 1 if firms have dividend intension disclosed and 0 if otherwise. Dividend payout was measured by dividing total dividend by total earnings.

The predicting factors of dividend policy used for this study comprises of both accounting and non-accounting variables including firm leverage (LEV), Liquidity (LIQ), firm size (SIZE), profitability (PROF), Taxation (TAX), Growth and Tangibility (TANG). Data for the study variables are gathered from corporate Ghana Stock Exchange website and corporate annual reports from newspapers.

### 3.5.1 Expected Results from the Predators

Based on the relevant literature from the prior studies on the factors influencing the dividends pay out policy. Findings and the knowledge of the author concerning the effect of the explanatory variables were used to develop the null hypothesis of this thesis.

<b>PREDATOR</b>	<b>EXPECTED IMPACT</b>
Profitability	Positive (+)
Leverage	Negative (-)
Size	Positive (+)
Liquidity	Positive (+)
Growth	Negative (-)
Age	Positive (+)

### 3.6 Data Analysis Model

According to Yin (1994) data analysis provides exciting reasons to minimize bias and maintain fair conclusions to do away with any delusions. Analyzing data aids, the researcher to harmonize the data collected against the connotation of the study being conducted. Data analysis is carried out a panel data perspective. The use of panel data helps to take into account the heterogeneity of firms in relations to possible explanatory variables. The general form of the panel data ordinary least square (OLS) regression model is defined by the below equation.

$$Y_t = \alpha + \beta X_t + e_t$$

Where  $Y$ -represents the dependent variable of the model,  $t$ -represents the period  $\beta$  represents coefficient of the predictors'  $X$ - represent the set independent variables (predictors)  $\alpha$ - represent constant and  $e$ -represent the error term. The study therefore adopted the below model proposed by Amidu and Abor (2006) with a slight modification.

$$d/intension = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \epsilon(1)$$

$$d/payout = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \epsilon(2)$$

Where;

X <sub>1</sub> = Firm size	(Natural Logarithm Of The Book Value Of Total Assets)
X <sub>2</sub> = Liquidity	(Current Assets/Current Liabilities)
X <sub>3</sub> = Profitability	(Profit Before Tax / Total Assets)
X <sub>4</sub> = Leverage	(Total Liabilities / Total Assets)
X <sub>5</sub> = Corporate Tax	(Corporate Tax/ Profit Before Tax)
X <sub>6</sub> = Tangibility	(Fixed Assets /Total Assets)
X <sub>7</sub> = Growth	(Current Sales – Previous Sales)

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**Source: Arthur's Construct, 2015**

Descriptive statistics such as measure of central tendencies (mean, media and mode) and dispersions were used to describe the nature of the sample companies in relation to their size, profitability, leverage and liquidity.

### **3.7 Validity and Reliability of the Study**

Validity describes the extent of dependability that is attributable to the findings put forward by the study, which is to be expected to repeat by another researcher (Yin, 1994). It is important for the researcher to note that when another researcher repeats the study, similar or same conclusion can be drawn.

Reliability can also be achieved through the review of related literature from prominent accounting authors and compare the findings and conclusions made by those studies carefully. To improve the level of validity various bases of confirmation are essential. The study therefore employed diverse sources from which data were gathered. The financial statements of the sampled companies were personally gathered from the Ghana Stock Exchange website and were used to extract the study variables. The findings from prior studies were also linked to the findings from this study.

## CHAPTER FOUR

### DATA PRESENTATION, ANALYSIS AND DISCUSSIONS

#### 4.0 Introduction

This chapter captures the presentations, analysis, and discussions of the findings of the study. The data presentation forms an integral section of the study. Under this section, answers to the research hypothesis are provided and basically forms the basis for providing realistic strategies to address the study. This chapter is sub-divided into various sections based on the research hypothesis. The section also presents to the fore findings of the study and the inferences that can be drawn from the results.

#### 4.1. Descriptive Statistics of the Explanatory Variables

The descript analysis below shows the average, standard deviation and skewness of the different variable of interest computed from the 2013/2014 financial year. It also presents the minimum and maximum values of which help in getting a picture about the maximum and minimum values of the variables assessed.

**Table 4.1: Summary of the Descriptive Statistics**

	INT.	PAY	LEV	PROF	LIQ	TAX	SIZE	GROWTH	TANG
Mean	0.7500	0.2745	0.7528	0.0951	1.2648	0.3180	18.1815	0.8000	0.3590
Standard Error	0.0993	0.0527	0.0454	0.0180	0.1225	0.0799	0.9018	0.0918	0.0668
Median	1.0000	0.2014	0.8265	0.0753	1.1293	0.2417	19.3450	1.0000	0.1851

Std. Dev.	0.4443	0.2356	0.2028	0.0807	0.5481	0.3572	4.0329	0.4104	0.2986
Variance	0.1974	0.0555	0.0411	0.0065	0.3004	0.1276	16.2646	0.1684	0.0892
Kurtosis	-0.4967	-1.1666	0.5206	2.1345	5.9003	6.0102	0.6389	0.6985	-1.2891
Skewness	-1.2505	0.3410	-0.1852	1.4759	1.8862	2.5262	-1.1947	-1.6245	0.6019
Range	1.0000	0.6950	0.8639	0.3141	2.7074	1.4141	13.3600	1.0000	0.8100
Minimum	0.0000	0.0000	0.3462	0.0102	0.3746	0.0000	9.1200	0.0000	0.0434
Maximum	1.0000	0.6950	1.2100	0.3243	3.0820	1.4141	22.4800	1.0000	0.8534
Sum	15.0000	5.4901	15.0552	1.9013	25.2950	6.3597	363.6300	16.0000	7.1807
N	20.0000	20.0000	20.0000	20.0000	20.0000	20.0000	20.0000	20.0000	20.0000

*Source: Arthur's Construct, 2015*

Table 4.1 above illustrates the summary descriptive statistics of the variables assessed in the study. These variables were computed from financial statements and annual report of the sample companies on the Ghana Stock Exchange. From the table 4.1 the average proportion of dividend intention is 75%. These findings suggest that, on average of about 75% of the listed firms on GSE have a policy to pay dividend with average dividend pay ratio (computed as total dividend / total earnings) been 27.45%. It can therefore be inferred from these findings that, on an average, listed firms on GSE pay about 28% of their profit as dividend with the 72% of the earnings retained for future growth needs of the company.

The average profitability of the sample firms is 9.51% with standard deviation of 8.07% which implies that, the value of profitability can deviate from the average that the firms' profitability ratio is considerably low when compared to the profitability range in the sample firms. Interestingly, the profitability measure in table 4.2 is not much affected the extreme values as the mean and median is almost the same.

The mean liquidity ratio is 1.26 with a standard deviation of 0.12. It can therefore be inferred that the selected firms have capacity to pay for their financial obligations.

The average growth opportunity of the selected companies is about 80% and is negatively skewed indicating that majority of the selected companies having growth opportunity of about 80%.

Interestingly the mean size of the sample companies is 18.18 with a standard deviation of 0.90 indicating relatively a higher side in relation to the range of the distribution.

Using sales growth as proxies for future investment opportunities, one can deduce that there is average growth in investment of the firms during the period understudy.

#### **4.2 Measure of Association between the Explanatory Variables**

The table 4.2 below shows the measure of association between the study variables. From the table 4.3 it can be seen that, there is slightly weak association between the dependent variables (dividend intension and dividend payout) and the seven covariates thus; firm leverage (LEV), Liquidity (LIQ), firm size (SIZE) profitability (PROF), Taxation (TAX), Growth and Tangibility (TANG). The dividend intention has negative relationship with firm's profitability, firm's taxation, firm's and firm's tangibility.

However, firm's dividend intention relates positively with firm's liquidity, firm's size, firm's dividend pay ration and firm's leverage. Dividend payout exhibits an inverse correlation with firm's leverage, profitability and tangibility but positive relationship with firm's liquidity, size and growth. However, the strength of relationship between the dependent variables and the independent variables is less than 0.5 indication relatively weak association between the variables. However, generally low magnitude of the correlation co-efficient among the independent variables may suggest the absence of multi-collinearity. Also as robustness check, the test for multi-collinearity using Variance Inflation Factor (VIF). From the table 4.2.2 it is clear that all the predictors the entire variable is worth investigating ( $1/VIF$  is at least 0.1).

**Table 4.2: Correlations of Covariates**

	<i>Int.</i>	<i>Pay</i>	<i>Lev</i>	<i>Prof</i>	<i>Liq</i>	<i>Tax</i>	<i>Size</i>	<i>Growth</i>
Pay	0.690187	1						
Lev	0.000954	-0.1823	1					
Prof	-0.2299	-0.1027	-0.0034	1				
Liq	0.29381	0.29504	-0.3280	-0.0837	1			
Tax	-0.0087	0.03338	0.07070	-0.2087	0.03254	1		
Size	0.32570	0.31002	-0.0187	-0.3527	0.00627	-0.4158	1	
Growth	0.28867	0.32241	-0.2625	-0.4537	0.01998	-0.5640	0.84925	1
Tang	-0.4017	-0.2479	-0.5067	0.45340	0.23607	-0.0183	-0.5771	-0.4032

*Source: Arthur's Construct, 2015*

**Table 4.3: Variance Inflation Factor (VIF) Values of Covariance**

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Collinearity Statistics

	Tolerance	VIF
Leverage	0.326	3.072
Profitability	0.361	2.767
Liquidity	0.811	1.232
Tax	0.278	3.600
Size	0.172	5.806
Growth	0.081	12.405
Tangibility	0.280	3.567

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*Source: Arthur's Construct, 2015*

### **4.3 Discussion of the Regression Results**

#### **4.3.1 Dividend Intension**

Table 4.4 below shows the regression model results between dividend payment intension and explanatory variables. These variables include; firm leverage (LEV), Liquidity (LIQ), firm size (SIZE) profitability (PROF), Taxation (TAX), Growth and Tangibility (TANG). Ordinary least square method was used to run the data. The dependable variable in the model is a dummy variable (thus 1= dividend intention and 0 = otherwise).

The explanatory power of the model is 35.31% indicating that, firm leverage (LEV), Liquidity (LIQ), firm size (SIZE) profitability (PROF), Taxation (TAX), Growth and Tangibility (TANG) can predict about 35 % of firm's dividend intension.

**Table 4.4: Measure of the Predictive Power of the Predators**

Intention	Coefficients	Standard Error	t	P > t
Const.	0.83255339	1.5253057	0.546	0.595
LEV	-0.25165713	0.8912347	-0.282	0.782
PROF	0.93998522	2.1270508	0.442	0.666
LIQ	0.33174329	0.208926	1.588	0.138
TAX	0.11892576	0.5477881	0.217	0.832
SIZE	-0.01933811	0.0616238	-0.314	0.759
GROWTH	0.303934544	0.8851852	0.343	0.737
TANG	-0.923076395	0.6524527	-1.415	0.183
Multiple R			0.594288458	
R Square			0.353178771	
Adjusted R Square			-0.024133613	
Standard Error			0.449590518	
F-statistics			0.936	
Significance F			0.514	
Observations			20	

*Source: Arthur's Construct, 2015*

#### 4.3.2 Dividend Payout

Regression model below was also run using the Ordinary Least Square (OLS) method. Dividend payout ratio is regressed against the six explanatory variables (predators). The predators include firm leverage (LEV), Liquidity (LIQ), firm size (SIZE) profitability (PROF), Taxation (TAX), Growth and Tangibility (TANG) and the regression results displayed in table 4.5 below. The R square in the regression model suggest that about

39.88% of the variations in dividend payout can be explained by firm leverage (LEV), Liquidity (LIQ), firm size (SIZE) profitability (PROF) and firms age (AGE) and the F-statistics [F (7,19) =;  $p < 0.05$ ] affirms the efficiency of the model.

The results from the regression model also suggest that, firm's leverage, size and assets tangibility associate negatively with dividend payment. However, firm's profitability, growth, liquidity, and corporate tax also associate with firm's dividend payment positively.

**Table 4.5: Regression Results**

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t</i>	<i>P &gt; t </i>
Intercept	-0.168491018	0.779838	-0.216	0.833
LEV	-0.032203704	0.455658	-0.071	0.054
PROF	1.655545175	1.08749	1.522	0.154
LIQ	0.167400256	0.106817	1.567	0.043
TAX	0.372961645	0.280066	1.332	0.101
SIZE	-0.021050169	0.031506	-0.668	0.517
GROWTH	0.591962554	0.452566	1.308	0.215
TANG	-0.310017554	0.333577	-0.929	0.371
Multiple R		0.631485	4	
R Square		0.39877449		
Adjusted R Square		0.04805961		
Standard Error		0.22986056		
F-statistics		1.137033		
<i>Significance F</i>		0.0402591		
Observations		20		

*Source: Arthur's Construct, 2015*

## **4.4 Discussion of the Regression Results**

### **4.4.1 Firm's Leverage**

The result from table 4.5 above indicates that firm's leverage associate inversely with dividend payment. This implies that an increase in firm's leverage is associated with low dividend payout. This finding is supported by a mounting number of prior studies; Gugler and Yurtoglu, 2003; Al-Malkawi, 2005).

It was established in these studies that, instead of highly leverage firms to share their existing cash to shareholders and protect their creditors, they rather look ahead to maintaining their internal cash flow to fulfill duties of future financial obligations. Thus, it is expected that debt would impact negatively on the amount of dividend paid for a period.

### **4.4.2 Firm's Size**

The size of firms is expected to predict the firm's dividend payment. From the regression results, firm size relates negatively with the dividend payment. These results suggest that, large firms prefer to pay fewer dividends than the small firm.

This finding is in-line Hafeez and Attiya (2008) that there is significant negative relationship between dividend Payout and size using listed companies in Pakistan. Contrary to this finding AL- Shubiri (2011), Eriotis (2005) and Al-Twajjry (2007) found out that there is strong significant positive relationship between firm size and dividend payment decision. This relation is not supported by the transaction cost theory of dividend policy.

The results of the regression also indicate a negative relationship between dividend payments and assets tangibility. This means an increase in assets tangibility of a firm will result in low dividend.

This finding is contrary to the study conducted by Bradley et al, (1984) which claimed that firm with high assets tangibility are in better position to raised cheap fund by using their assets as collateral.

#### **4.4.3 Corporate Tax**

This result indicates that high dividend payment will result in high tax and vice versa which support the tax preference theory that dividends are subject to a higher tax cut than capital gains. Therefore, for tax-related reasons, firms and investors prefer to pay less tax in order to reduce their tax burden.

#### **4.4.4 Firm's Growth Opportunity**

The outcome of the regression of the regression model in table 4.6 indicates positive relationship between firm's growth and dividend payout. However, this relationship is not significant statistically. This finding seems to be contrary to some theories like agency theory of dividend and most prior studies. The possible reason in this case may be that, most firms in Ghana with growth opportunities faces challenges like financial, economic and political challenges thereby paying higher dividend than to grow the business. That notwithstanding, this study is in-line with the finding of Aivazian et al (2003).

#### **4.4.5 Liquidity**

It can be seen from the regression results that, there is statistically positive relationship between firm's dividend payment and liquidity. Thus firms with higher cash availability are likely to pay high dividend. This finding is consistent with signaling theory. Also supported by Ahmed and Javad (2009) that payment of dividend depends

largely on the liquidity position of the firm and liquidity is an important determinant of dividend payout.

#### **4.4.6 Profitability**

As expected, the regression result indicates a statistically significant relationship between firm's profitability and dividend payment. Thus Directors more often than not recommend the payment of dividend when the firm has made adequate profit to necessitate such payments. This finding is in consistent with Al-Kuwari (2009) who postulates that dividend payment is largely and strongly influenced by firm's profitability. Al- Najjar and Hussainey (2009) also affirm that the profitability plays an important role in increasing the dividend paid to the shareholders. They were quick to add that profitability is supported by signaling theory, as the firm wants to boost the standing of its performance.

#### **4.4.7 Asset Tangibility**

Lastly, the regression result indicates that assets tangibility is negatively related with dividend payment. This means an increase in assets tangibility of a firm will results in less dividend payment. This finding is not in consistent most of the prior studies. Because the rule of the thumb is that, firms with high assets tangible are collaterally strong in the eyes of the investing public. However, the simple explanation to this finding may be that, the investing public are not willing to consider collateral but are looking other factors instead. This situation may force firm to put pressure on their IGF thereby retaining some dividend for their operations.

## CHAPTER FIVE

### SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

#### 5.0 Introduction

The purpose of the study is to assess the dividend intension and dividend payout ratio of listed firms in Ghana Stock Exchange. In this final chapter, a summary of the results that came out of the analysis in reference to the whole research purpose and research hypothesis are presented. This chapter also examines the consistencies and contradictions of the frame of reference in chapters two and three respectively.

#### 5.1 Summary of Findings

##### 5.1.1. Summary of Descriptive Statistics

The mean proportion of dividend decision is 75% with the standard deviation of 4.4%. These findings implies that, on average of about 75% of the listed firms on GSE have a policy to pay dividend with average dividend pay ratio been 27.45%. This shows that, on an average, listed firms on GSE pay about 28% of their profit as dividend with the 72% of the earnings retained for future growth needs of the company.

The variable leverage measures the ratio of total debt to total asset of firms, which indicates the firms' level of total debt to total assets base. The result of the study reveals that the firms' sample for the study level of debt in relation to their asset base is 75.28%. This finding indicates that on large-scale listed firms on Ghana stock exchange depends on debt to support their operations. The average liquidity ratio for firms is 1.26 with standard deviation of 0.12 the highest current ratio for a company in 2013/2014 financial years is 0.86 times and in the same way the minimum ratio for a company in a year is 0.40.

The profitability variable, return on asset shows on average of 9.51% with standard deviation is 1.8%. The maximum value for the net operating profitability was 32.43% for a company in a year while the minimum is 1.02%. The outcome of the study also shows that; the firms have a relatively size of 18.18% (computed as natural logarithm of total assets). Average growth rate of the firm is found to be around 80% using the sales growth as proxies for future investment opportunities; one can deduce that there was 80% average growth in investment of the firms during the period understudy.

### **5.1.2 Determinant of Dividend Payment Intension and Payment**

The regression results of the study reveal that, firm leverage (LEV), Liquidity (LIQ), firm size (SIZE), profitability (PROF), Taxation (TAX), Growth and Tangibility (TANG) affect dividend intension and dividend payout ratio for about 35.32% and 39.88% respectively. It is clear from the regression results that, firm's growth, firm's profitability, liquidity and corporate tax relate positively with dividend payment. However, only liquidity and corporate tax have significant relationship with dividend payment. It was also evident from the study results that, firms leverage, firm's size and assets tangibility relate negatively with dividend payment but only corporate tax relate significantly with dividend payment. The rest of the predators appear to be not having statistically significant relationship with dividend payment. Therefore, their influence on dividend payment may be as a result of chance.

### **5.2 Conclusion**

The study seeks to examine the determinants of dividend policy of listed firm on Ghana Stock Exchange. To understand the research issues raised in the study and to place the

relevant literature in context, as well as to generalize the study to some extent, a thorough review of the literature was made.

Similarly, to findings from other studies, this study postulates that there is a significant positive impact of firm's profitability and growth on the dividend decision of a firm. However, the study is in contrast to prior research findings.

Most of the prior research postulate that, leverage and size has a significant relationship with the firms' dividend payout ratio.

The study also found that on average about 75% of the sampled firm listed on the Ghana Stock Exchange have a dividend policy to pay dividend with the average dividend payout ratio been 27.45%. This shows that, on average firms pay about 28% of their profit as dividends with 72% of the earning retained for future development of the firms.

### **5.3 Limitation of the Findings**

1. The study is confined to only 2013/2014 financial year data therefore; a detailed analysis covering only one accounting year may give may not be the through reflection of the dividend payout ratio of the sample companies.
2. The study is based on secondary data collected from the website [www.gse.com.gh](http://www.gse.com.gh) and the websites of sample companies; therefore the quality of the study depends purely upon the accuracy, reliability and quality of the secondary data source.
3. Approximations and relative measures made with respect to the data source might influence the results of the study.

4. The study is based on twenty (20) companies selected from Ghana Stock Exchange. Therefore, the accuracy of results is purely based on the data of sample units. Any deviation from these sample units may affect the result.

#### **5.4 Recommendation**

Based on the finding from the above studies the researcher wishes to recommend the following:

1. Since profitability and growth exhibits positive and significant impact on the dividend policy, it is therefore important for the State as part of their responsibility to put in place some policies measures that will create a good business environment for firms' smooth operations.
2. There should be standard setting bodies (like ICA-Ghana) to develop a standard corporate dividend policy code specifying an average dividend payout ratio for all listed industries in order to improve shareholder's wealth.
3. To maintain dividend payment, the companies should have good profitability level.

More so, the following findings are recommended for future research ;

- Since the data were used for two financial years, it is recommended that future researches extend beyond two financial years.
- Future research should also cover dividend policies of unlisted companies. This is to ascertain whether the dividend policies of listed companies are the same as that of unlisted companies.

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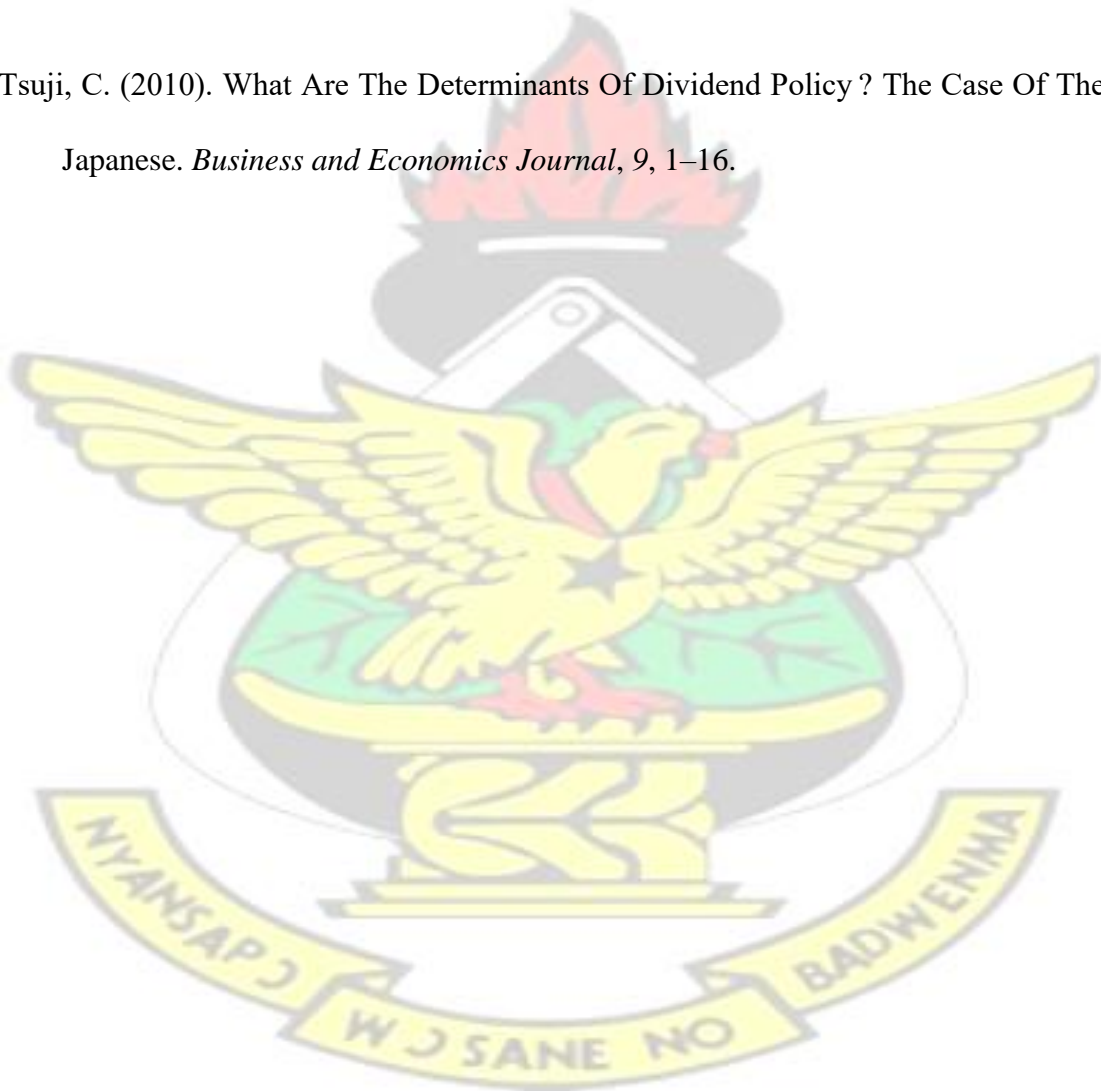
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## APPENDICES

### SAMPLE FIRMS AND THE STUDY VARIABLE

FIRMS	INTENSION	PAY	LEVERAGE	PROF.	LIQ.	T'ASSETS	TAX	SIZES	GRTH	TANGIBILITY
Fan Milk Ltd.	1	0.695	0.3462	0.1754	1.7057	123,913,000	0.3074	18.64	1	0.4929
AngloGold Ashanti	0	0	0.6857	0.0237	1.6758	29,229	1.2269	10.2829	0	0.8195
CAL Bank Ltd.	1	0.2027	0.8529	0.0731	1.7555	2,715,392,000	0.229	21.72	1	0.0442
Ghana Commercial Bank Ltd.	1	0.1972	0.8381	0.0927	1.1886	4,259,102,000	0.2857	22.17	1	0.0683
Ecobank Ghana	1	0.3941	0.8616	0.0775	1.1637	5,767,608,000	0.2345	22.48	1	0.0434
Ecobank Transnational Incorporated	1	0.0736	0.8905	0.0214	1.0276	77,579,398	0.2349	18.17	1	0.1939
Enterprise Group Ltd.	1	0.4888	0.5405	0.1432	3.082	485,951,000	0.0795	20.00	1	0.7922
Ghana Oil Company	1	0.2	0.7744	0.0811	0.8315	340,832,777	0.27	19.65	1	0.3906
Golden Star Resources Ltd.	0	0	1.21	0.3243	0.7799	825,770	0.003	13.62	0	0.5612
Guinness Ghana Breweries Ltd.	1	0.424	0.6647	0.0274	1.2205	419,378,000	0.2489	19.85	1	0.7027
HFC Bank Ghana Ltd	1	0.1794	0.8148	0.0548	1.2377	1,343,392,000	0.1637	21.02	1	0.121
PZ Cussons Ghana	1	0.4537	0.5694	0.0299	1.5278	85,260,946	0.3321	18.26	1	0.1529
Sam-Woode Ltd.	1	0.3946	0.8825	0.1384	0.9598	3,599,235	1.4141	15.10	0	0.1764
Societe Generale Ghana	1	0.4022	0.8676	0.0424	1.0948	1,675,949,364	0.2486	21.24	1	0.0507
SIC Insurance Company	0	0	0.56	0.0475	1.0484	186,640,253	0.0935	19.04	1	0.422
Standard Chartered Bank Ghana Ltd.	1	0.6487	0.8492	0.0784	1.0181	3,506,297,000	0.1922	21.98	1	0.1746
Tullow Oil	1	0.1112	0.648	0.1793	1.5581	36,549.00	0.199	10.51	0	0.8173
Trust Bank Ltd.	1	0.625	0.8928	0.0546	0.9591	15,062,154	0.3039	16.53	1	0.152

UT Bank	0	0	0.915	0.0102	1.0859	1,628,412,000	0.2931	21.21	1	0.1517
Mega African Capital Ltd.	0	0	0.3915	0.2262	0.3746	64,956,797	0	17.99	1	0.8534



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