UNIVERSITY OF CAPE COAST

THE IMPACT OF DIVIDEND POLICY ON THE PERFORMANCE OF RURAL BANKS IN GHANA

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BY

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DECLARATION

Candidate's Declaration

I hereby declare that this dissertation is the result of my own original research and that no part of it has been presented for another degree in this university or elsewhere.

Candidate's Signature ……………………………. Date ………………………

Name: Samuel Yamson

Supervisor's Declaration

I hereby declare that the preparation and presentation of the dissertation were supervised in accordance with the guidelines on supervision of dissertation laid down by the University of Cape Coast.

Supervisor's Signature ……………………………. Date ………………………

Name: Dr. Clement Lamboi Arthur

ABSTRACT

The most debated issue or controversy in the field of finance is over the impact of dividend policy on the performance of a company (Brealey and Myers 2002). Different views exist regarding the impact of dividend policy on the performance of firms. Some empiricists argue for dividends irrelevance while others take the opposite view and maintain that dividends do have relevance. This current study has been undertaken aiming at evaluating the impact of dividend policy on performance in the context of selected rural banks in Ghana. Seven rural banks were selected in Ghana. The study has covered secondary data and primary data. Quantitative tools such as percentages, averages, tables and chats were used in the analysis of the findings. At the end, it revealed that there is a positive correlation between dividend policy and rural banks performance. Also, the rural banks with a higher dividend payout have their performance or share value higher. Besides, the study recommends that dividend paying firms should continue to maintain a steady growth in dividends unless there is a very good reason to make profit and expand. Also, because there are different shareholders preferences, firms should find out from their shareholders what suit their preferences before dividends policy decisions are made.

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DEDICATION

To my children, Damien, Molvin and Shinnia

TABLE OF CONTENTS

Page

LIST OF TABLES

LIST OF FIGURES

CHAPTER ONE

INTRODUCTION

Dividend policy can be of two types: managed and residual. If the manager believes dividend policy is important to their investors and it positively influences share price valuation, they will adopt managed dividend policy. The optimal dividend policy is the one that maximizes the company's stock price, which leads to maximization of shareholders' wealth. Whether or not dividend decisions can contribute to the value of firm is a debatable issue in recent studies.

Background to the Study

The issue of dividend policy is one of the very essential elements in economics and business that it cannot be overlooked. Dividend policy is the regulations and guidelines that a company relies upon in making decisions concerning dividend payments to shareholders (Nissim & Ziv, 2001). The dividend policy decisions of firms are the primary element of corporate policy. Dividend, which is basically the benefit shareholders receive in return for their risk and investment, is determined by different factors in an organization. Basically, these factors include financing limitations, investment chances and choices, firm size, pressure from shareholders and regulatory regimes. However, the dividend pay-out of firms is not only a source of cash flow to the shareholders but it also offers information relating to firm's current and future performance.

Enhancing shareholders' wealth and profit making are the major objectives of a firm (Pandey, 2005). Shareholder's wealth is mainly influenced by growth in sales, improvement in profit margin, capital investment decisions and capital structure decisions (Azhagaiah & Priya, 2008). Firm performance in this case can be viewed as how well a firm enhances its shareholders' wealth and the capability of a firm to generate earnings from the capital invested by shareholders. Dividend policy can affect the value of the firm and in turn, the wealth of shareholders (Baker & Powell, 2001).

Dividend or profit allocation decision is one of the four decision areas in finance. Dividend decisions are important because they determine what funds flow to investors and what funds are retained by the firm for investment (Ross, Westerfield & Jaffe, 2002). More so, they provide information to stakeholders concerning the company's performance. Firm investments determine future earnings and future potential dividends, and influence the cost of capital (Foong, Zakaria & Tan, 2007). Dividend policy is therefore, considered to be one of the most important financial decisions that corporate managers encounter (Baker & Powell, 1999). It has potential implications for share prices and hence returns to investors, the financing of internal growth and the equity base through retentions together with its gearing and leverage (Omran & Pointon, 2004). There has been emerging consensus that there is no single explanation of dividends. According to Brook *et al*. (1998) there are many determinants of corporate divided policy.

Frankfurtet and McGoun (2000) posited that the dividend puzzle, both as a share value-enhancing feature and as a matter of policy is one of the most challenging topics of modern financial economics. Mizuno (2007) agrees to the fact that a firm ought to pay dividends to shareholders if it cannot identify suitable investments which would bring higher returns than those expected by the shareholders. Dividend distribution to shareholders varies in cash or by issue of additional shares. Whether to pay cash dividend or issue further shares would depend on the level of the company's unappropriated profit or excess cash. Payment of dividend is usually met by the company from its earnings and cash flow (Ahmed &Javid, 2009).

The proportion of dividend paid to the total earnings is technically referred to as payout ratio. A high payout ratio shows management's confidence in the stability and growth of future earnings while a low payout ratio suggests that management is not confident of the stability of earnings or sustainability of earnings growth (Arnott & Asness, 2003). The larger the proportion of dividend paid, the fewer funds are retained for investments and the more the company would have to shift to alternative sources of funds such as issue of additional shares and or debt capital to finance selected viable projects (Sindhu, 2014). Therefore, the decision between paying dividend and retaining earnings is taken seriously by both investors and management and has been the subject of considerable research by economists for some years back (John & Muthusamy, 2013).

Statement of the Problem

Corporate dividend policy is an area that has attracted attention of management scholars and economists culminating into theoretical modelling and empirical examination. Thus, dividend policy is one of the most complex aspects in finance. Black (1976) posited in his study on dividend that the harder we look at the dividend picture, the more it seems like a puzzle, with pieces that just don't fit together. Over three decades since when numerous studies have been produced in examining dividend policy to gain an insight to this puzzle.

Recently, however, Frankfurter et al. (2002) concluded in the same vein as Black and Scholes (1974) that: The dividend "puzzle", both as a share value-enhancing feature and as a matter of policy, is one of the most challenging topics/issues of modern financial economics. Research into dividend policy has shown not only that a general theory of dividend policy remains elusive, but also that corporate dividend practice varies over time, among firms and across countries and even between developed, developing and emerging capital markets (Amidu, 2007).

Despite the contradicting views on the relationship between corporate dividend policy and firms' performance globally, few empirical evidence exist in Ghana and even those that exist are limited to few firms such as banking and manufacturing firms and they examine the determinants of dividend pay-out ratios of listed firms (Amidu & Abor, 2006; Amidu, 2007), and few were also conducted long before (old or archaic) firms adopted the international standards for financial reporting by focusing on dividend policy and share price volatility (Asamoah, 2010). Therefore, this study seeks to examine the relationship between dividend policy and the performance of selected rural banks in Ghana.

Objectives of the Study

The main objective of the study is to determine the impact of dividend policy on the performance of some selected Rural Banks in Ghana. To wholly address the overall goal of the study, the following sub-purposes have been crafted:

1. To examine the various dividend payout policies of some selected rural banks in Ghana over the years.
2. To examine the relationship between performance and dividend payout of selected rural banks in Ghana.
3. To assess the value shareholders place on dividend payout amount.

Research Questions

1. What are the dividend payout policies of selected rural banks in Ghana?
2. What is the relationship between performance and dividend payout policy of selected rural banks in Ghana?
3. What is the value shareholders place on the amount of dividend payout?

Hypotheses

The following hypotheses were developed for testing:

H_0: There is no significant impact of dividend policy on the performance or share value of a firm.

H_A: There is a significant impact of dividend policy on performance or share value of a firm.

Significance of the Study

Most of the pertinent literatures on the relationship between dividend policy and performance of companies are related to foreign companies and markets.

Therefore, it is hoped that the study, first, addresses issues from the Ghanaian perspective to determine whether the relationship between dividend policy and firm's performance is applicable to Ghanaian situation.

Second, the study helps help companies to know the effect of their dividend policies on their performance or share value.

Third, it assists shareholders (both existing and prospective) to evaluate effects of dividend policies of companies on their earnings both present and future.

Finally, it helps shareholders to make an informed decision on whether to maintain or withdraw their investment and invest in other companies depending on the company's dividend policies.

Delimitation

For the study to have general representation and it findings and recommendations accepted to represent the true nature of Rural Banks in Ghana, seven Rural Banks in Kumasi were chosen out of twenty-eight Rural Banks in Ashanti Region as the scope of the study. This project limits itself on dividend policy and the impact on performance of Rural Banks in Ghana.

Limitations

This study is not without limitations due to the following reasons:

I. The level of inflation in the country differs from year to year; therefore, comparison of yearly results would be difficult. This would make it difficult to determine whether increase in values were due to improved performance by the companies or general rise in prices.

II. The study could not include the effect of external influences such as governmental policies on business and the level of economics activities on the performance of companies.

III. There are various variables that affect a firm's performance but only dividend policy could be taken as the main factor for the purpose of the study.

Organization of the Study

The study is grouped under five chapters. Chapter one started with general introduction of the study which includes the background, statement of the problem, the objectives of the study, research questions, hypotheses, significance of the study, delimitation, limitations and organization of the study. Chapter two reviewed related studies and literatures. That is, the various models and theories written on the relationship between dividend policy and firm's performance were discussed. The chapter three focused on the research methods while the chapter four covered the presentation and analysis of the data collected. The summary, findings, conclusions and recommendations of the study were presented in chapter five.

CHAPTER TWO

LITERATURE REVIEW

Introduction

This chapter discussed the various models and theories written on the relationship between dividend policy and firms' performance which includes dividend irrelevance, dividend relevance, transaction costs, uncertainty resolution, taxes, free cash flow theory, agency cost, signaling theory and summary of the theories.

The purpose of this study is to determine the impact of dividend policy on the performance of rural banks in Ghana. Corporate dividend policy has captured the interest of economist of the 20th century and over the last five decades has been the subject of intensive theoretical modeling and empirical examination (Grullon & Michaely, 2002). According to Frankfurter and Wood (2002) a number of conflicting theoretical models define current attempts to explain corporate dividend behaviour. Initial attempts into theorizing corporate policy are divided as to their prediction or the dividend payments effects on performance

Over the last century, there are basically two schools of thought which have emerged. One faction maintains that firm dividend policy is irrelevant in share value whereas the other sees dividends as attractive and as positive influence on performance or share value (Fischel, 1981).

Conceptual Definitions

Dividend

The word 'dividend' is derived from the latin word 'Dividendum' which means 'that which is to be divided'. This distribution is made out of profit remained after deducting all the expenses, providing for the taxation and transferring a significant amount of reserve from the total income of the company. In other words, a dividend usually refers to cash payment made on a quarterly or semi-annual basis by a company to its shareholders. It is that proportion of distributed profit of a company that is given to shareholders as return on their investment. And it may be defined as divisible profits which are distributed among members of a company in proportion to their share in a manner as is prescribed by law.

According to the Institute of Chartered Accountants of India (ICIA), dividend is "a distribution to shareholders out of profit or reserves available for this purpose." A company cannot declare dividend unless there is –

I. Sufficient profits in the company

II. Recommendation of the Board of Directors

III. An acceptance of the shareholder in the Annual General Meeting

Dividend payment may take different forms. These are cash, stock and scrip or bonus dividend payment.

Alternatives to Cash Dividend

In order to avoid the liquidity problem that may accompany cash dividends companies usually resort to other alternatives to cash dividends. These include scrip dividend and non-pecuniary benefits. Scrip dividend involves the offer of additional ordinary shares to equity investors in proportion to their existing shareholders as partial or total alternative to a cash dividend. And non-pecuniary benefits also known as stakeholders' pecks, can take the form of discounts on the company's goods and services and or the offer of complimentary goods and services to shareholders in lieu of cash dividends (Ofer & Thakor, 1987).

The Choice between Cash Dividend and Share Buy-Backs

Common stock repurchase is a well-known alternative to cash dividends. Both ways of paying out cash are useful to mitigate the agency problems that are raised by Easterbrook (1984) and Jensen (1986). A large number of academic papers find that share buy-backs are especially useful to signal that the stock price of the company that buys its shares is undervalue. A number of studies, including Comment and Jarrel (1995) and Ikenberry, Lakonishok, and Vermaelen (2000) find that share buy-back announcements are associated with significantly positive abnormal returns. Ikenberry, Lakonishok, and Vermaelen (2000) have also analyzed the long-run performance of US and Canadian companies after share buy-backs. In those studies, a significantly long-run positive abnormal returns found.

Dividend Policy

Dividend policy is a flexible and comprehensive term. In narrow sense dividend policy means the policy followed by BOD concerning quantum of profit to be distributed as dividend. In a broader sense, dividend policy refers the determination of the principles, rules and procedures for the planning of distribution dividend after deciding the rate of dividend. That is Dividend policy is the strategy that a company follows in determining the amount and timing of dividend payment to shareholders and the amount to reinvest in the firm (Frankfurter 1999). According to Fischel (1981) "a company's dividend policy can then be defined as the plan of action adopted by its directors whenever the dividend decision is to be made."

Over time various theories of dividend policy have emerged, some of the main theories are as follows:

I. Relevance Theories which consider dividend decision to be relevant as it impact the company share value or the performance of the firm. Under these theories are transaction cost, uncertainty resolution (bird in a hand'), taxes, agency and signaling theories (Crutchley & Hanson 1989).

II. Irrelevance Theory considers the dividend decision to be irrelevant as it does not alter the value of the firm. This theory is called Modigliani and Miler's Model.

The theories are reviewed under the theoretical review section.

Constraints of Dividend Policy

Companies experience constraints on their dividend payment. The main constraints are legal constraints, liquidity, interest payment obligations and investment opportunities. Legal constraints under Section 61 of the Companies Act, 1963, Act 179 companies can only pay dividend out of accumulated net realized profit, that is, current year profit and those profit realized over the years.

Cash dividend payment can have serious liquidity problems for a company. Therefore, before companies pay dividends they have to take into consideration their liquidity positions. Also, dividends are paid out of distributable profit (profit after interest and tax), this means that the level of debt and its accompanying obligations serve as a major constraint on the dividend policy of a company. Retained earnings are a major source of funding for most companies because they are cheaper than debt financing. Companies with viable projects which they can fund with retained earnings are not likely to pay dividend. Thus, availability of investment opportunities is a constraint on the divided policy of a company (Glen, Karmokolias, Miller & Shah 1995).

Firm's Performance/Share Value

According to Hansen and Wernerfelt (1989), a firm's performance is a barometer of the success of the company. There are multidimensional model of firm performance and this study emphasize on share price or share value as an indicator of firm's performance.

Dividend Policy and Firm's Performance

Dividends have always been a puzzle in the theory of a firm. Since the seminal work of Miller and Modigliani (1961) which rubbished the significant of dividends arguing that dividend payment is indicative of management's failure to identify positive-net-present value projects for investment to increase share value or performance, subsequent researchers such as Dewenter and Warther (1998) have establish that dividends matter and that managers appear to strongly believe that the market puts premium on firms with a stable dividend policy. Payment of dividend has a signaling effect that the firm is doing well or performing.

Dividend irrelevance proposition suggests that a firm's dividend policy has no effect on the value of the firm in a perfect and complete market (Stulz, 2000). Financial managers therefore, cannot alter the value of their firm by changing their dividend policy.

A study by Dhanani (2005) revealed that dividend policy is important in maximizing shareholder value. A firm's dividend policy can influence one or more of imperfections in the real world such as information asymmetry between managers and shareholders; agency problem between managers and shareholders; taxes and transaction costs and in turn, enhance the firm's value to shareholders.

According to Walter (1963) it is accepted fact that dividend policy is an important financial decision for the management. While determining dividend policy, the management must consider to what extent dividend policy would influence share price because the objective of financial management is to maximize firm's share value.

The payment of dividend should be preferred if it leads to the maximization of firm's share value or performance. But if it does not, then the firm should retain the profit and should not distribute dividend. There are numerous researchers both theoretical and empirical that focus upon to the relationship between the value of the firm and its dividend policy. Thus, there is a lot of controversy and existence of dilemma with regard to the influence of dividend on share price or the value of the firm (Brealey & Myers, 2003).

Theoretical Review

Dividend Irrelevance Theory

Miller and Modigliani (1961) irrelevant theory forms the foundational bedrock or modern corporate finance theory. Miller and Modigliani argued that dividend policy is irrelevant for the cost of capital and the value of the firm in a world without taxes or transaction cost. They showed when investors can create any income pattern by selling or buying shares. The expected return required inducing them to hold firm's shares would be invariant to weigh the firm packages dividend payments and new issues of shares. Since the firm's assets, investments opportunities, expected future net cash flows and cost of capital are not affected by the choices of dividend policy, its market value is unaffected by any change in the firm's payout pattern. Thus, dividend policy is irrelevant and firms can choose any payment pattern without affecting their value. Miller and Modigliani (1961) theory implies that dividend payout would fluctuates as a by-product of the firm's investment and financing decisions, and therefore, would not exhibit a systematic pattern over time.

According to Amidu (2007), the clientele effect also provides an alternative argument for the irrelevance of dividend policy, at least when it comes to valuation. In summary, investors would migrate to firms that pay the dividend policy. Thus, a firm that pays no or low dividends should not be penalized for doing so, because its investors do not want dividends. Conversely, a firm that pays high dividends should not have a lower value, since its investors like dividends. This argument assumes that there are enough investors in each dividend clientele to allow firms to be fairly valued, no matter what their dividend policy is.

Dividend Relevance Theories

Various writers on the effects of dividend policy on share price have criticized the irrelevance theory of Miller and Modigliani (MM), 1961. They argued that in an imperfect market, those assumption outlined by Miller and Modigliani do not work. For instance, companies do incur floatation cost in their bid to raise additional capital whereas investors incur transaction cost whenever they are selling or buying shares (Amidu, 2007).

According to Amidu (2007), in Ghana, companies pay brokerage fees or underwriting cost when issuing new shares. Again, investors pay income tax on the dividend income they receive. Also, in Ghana, dividends are subject to 10% withholding tax while capital gains are exempted from taxes. Furthermore, the insiders have more access to information than the outsiders therefore the market do not fully reflect the available information. Clearly, these shows that dividend policy has tremendous effect on share price valuation in an imperfect market like ours. Reasons of various researchers who are of the opinion that dividend policy is relevant are explained below:

Transaction Costs

A rational argument in favour of dividends consists of transaction cost. An investor who wants to receive a regular income from her security holdings has a choice between buying dividend-paying stocks and regularly selling part of her portfolio. For a small individual investor, the transaction cost of cashing in the dividends may be significantly smaller than the transaction cost associated with selling a part of the stocks (Allen & Michaely, 2003).

Uncertainty Resolution

The "Bird in Hand" theory of Gordon (1963) argues that shareholders outside prefer a high dividend policy. They prefer a dividend today to a highly uncertain capital gain from a questionable future investment. A number of studies demonstrate that this model fails if it is positioned in complete and perfect market with investors who behave according to notions of rational behaviour. Miller and Modigliani (1961) and Bhattacharya (1979). Nonetheless, the original reasoning of Gordon (1962) is still frequently quoted. For example, Ross, Wetherfield, Jaffe and Roberts (2002) discuss Gordon's reasoning in the latest edition of their textbook in which they disagree with Gordon's reasoning that increased dividends make the firm less risky. Their argument is that a firm's overall cash flows cannot change with a change in dividend policy. The model also seems to accord very well casual observations. The argument also often comes up in the financial press. It is often stated that the dividend yield takes a substantial part of the total stock return, especially in down markets. For example, in a Wall Street's Journal article, a portfolio manager states: "Dividends are now of greater interest to investors, share prices have gone up down dramatically, but dividends stay fairly steady, and provide some cash income during the bear market." Although, this statement is irrational from a theoretical point of view, it can still be the case that a large number of investors want dividends exactly for this reason (Dong, Robenson & Veld, 2005).

Taxes

Farrar and Selwyn (1967) assume that investors maximized after tax income. In a partial equilibrium framework, investors have two choices. Individuals choose the amount of personal and corporate distributions as dividends or capital gains. They reasoned if effective marginal rate of tax would be paid on income from dividends then, a shareholder is better off with zero dividends then investors would like the company to retain earnings. Litzenberger and Ramasway (1979) in their Tax preference theory argued that investors want companies to retain earnings and thus provides returns in the form of lower-taxed capital gains rather than heavily taxed dividends. In the other words, low dividend payout ratio lowers the required rate of returns and increases the market valuation of the firm's share.

Brennan (1970) on the other hand extends Farrar and Selwyn's results by considering how the prices of stocks might be affected by different dividend policies. He assumed that the market prices of stocks would adjust in such a way that the after-tax rate of return received by holders of a company's stock would be the same no matter what dividend policy the company adopt. In Brennan's model, buyers and sellers of the stock would require the same after-tax return from the stock even if the company adopts a different dividend policy. This means that if a firm adopts a high dividend payout policy and if shareholders have to pay higher taxes as a result, the firm's stock would have lower-price in order to maintain the same after tax of return that shareholders require.

Agency Cost

Even if a firm does not have a free cash flow, dividend payments can still be useful for the shareholders in order to control the over investment problem. Easterbrook (1984) argues that dividend reduce the over investment problem because the payment of dividends increases the frequent with which firms have to go equity markets in order to raise additional capital. In the process of attracting new equity, firms subject themselves to the monitoring and disciplining of these markets. This lowers agency costs. A share repurchase creates the same monitoring effect. The agency theory was also advanced by Jensen and Meckling (1976) to explain the dividend relevance. They showed that agency cost arises when management serves its own interest instead of those of shareholders.

Signaling

According to the information content of dividends or signaling theory, firm, despite the tax penalty relative to capitals gains, may pay dividends to signal their future prospects. The intuition underlying this argument is based on the information asymmetry between managers (insiders) and outside investors, where managers have private information about the current and future fortunes of the firm that is not available to outsiders. Here, managers are thought to have the incentive to communicate this information to the market (Miller and Rock, 1985).

Bhattacharya (1979), John and William (1985), and Miller and Rock (1985), argued that information asymmetries between firms and outside shareholders may induce a signaling role for dividends. They show that dividends payment communicates private information in a fully revealing manner. The most important element in their theory is that firms have to pay funds regularly. An announcement of dividends increase is taken as good news and accordingly the share price reacts favourably, and vice-versa. Only good-quality firms can send signals to the market through dividends and poor-quality firms cannot mimic these because of the dissipative signaling cost (for e.g. transaction cost of external financing, or tax penalty on dividends, distortion of investment decisions). Therefore, a similar reasoning applies to recurrent share buy-backs.

Smaller Influence from Accounting Manipulations

An important reason for companies to pay dividend may be that companies that pay higher dividends are perceived as being relatively honest and less subject to accounting manipulations. For example, a recent Barron’s article argues: “Embrace stock that pays higher dividends’. A bird in the hand is better than two in the bush, higher dividend payments also indicate that companies are generating real earnings rather than cooking the books”. The earlier mentioned Wall Street Journal article also states: “Dividends are paid by companies that grow earnings over into growth through the back door, in a lower-risk way.” This argument is closely related to the uncertainty resolution argument (Dong, Robinson and Veld, 2003).

Behavioural Finance

Shefrin and Statman (1984) developed a theory of dividend based on the fact that even if the amount of cash received is the same, it can still make difference for the inventor whether the cash comes in the form of dividends or capital gains. Their model is based on a behavioural theory. In this theory investors want dividends because of self-control. This argument comes down to investors wanting to restrict themselves from consuming too much in the present. They do not want to dip into capital and, therefore, they only allow themselves to consume current income such as dividends. The effect described by Shefrin and Statman (1984) is especially strong for elderly (retired) investors, as they have little or no labour income and rely more heavily on income from their securities holding. Shefrin and Statman (1984) refer to this as the behavioural life cycle.

At first this theory shows resemblance with Gordon's (1961) theory. However, the theory of Gordon is based on uncertainty towards future dividends, whiles the theory of Shefrin and Statman (1984) is based on investors who prefer to consume from dividends instead of capital gains.

Free Cash Flow

Free cash flow is the cash flow that remains after all positive net present value (NPV) projects are undertaken. According to the overinvestment theory of Jensen (1986), managers aim to expand the size of the firm, and thus may take on negative NPV projects instead of paying dividends. Mangers consider a larger firm to be more prestigious and they expect to earn compensation than they would in a small firm. This is obviously not in the interest of the existing shareholders.

Black (1976) argues that paying dividends can mitigate a potential overinvestment problem, because they reduce the amount of free cash flow. This theory is difficult to test in the context of this research in that it is difficult to convey the notion of a negative net present value project to individual investors who are not aware of finance theory. One possible way to test this theory is by linking free cash flow to down markets or economic downturns. This assumption is that there are less growth opportunities in such circumstance.

Empirical Evidence

The behavior of dividend policy is one of the most controversial issues in the corporate finance literature and still keeps its prominent place in the world markets (Hafeez and Attiya, 2009) Many researchers have tried to uncover issues regarding the dividend dynamics but we still don't have a unified explanation for the observed dividend bahaviour of firms (Black, 1976; Brealey and Myers 2005). Dividend policy has been analyzed for many decades, but no universally accepted explanation for companies' observed dividend behavior has been established (Samuel and Edward, 2011). It remains one of the top ten most difficult unsolved problems in financial economics.

According to various dividend policy arguments, there is evidence of significant positive association between dividend policy and firm's performance. Studies by DeAngelo (1990) and DeAngelo et al. (1992) have demonstrated that a significant proportion of companies recording losses over a five-years period tend to ignore dividends entirely. Truong and Heaney (2007) find that firms are more likely to pay dividends when profits are high. Jensen et al. (1998) find evidence of a positive association between maximization of share value and dividend payment.

The findings of another study done by Arnott and Asness (2003) also revealed that future share price increase is associated with high rather than low dividend payout. They conclude that historical evidence strongly suggests that expected future share price increase is fastest when current payout ratios are high and slowest and slowest when payment ratios are low.

Some other studies like Fersio, Geary and Moser (2004) are of the view that dividend policy is not relevant in determining the value or measuring performance of firms. They rather believe that substantial reinvestment of retained earnings (as against dividend payout) would enhance faster earning growth in the future. For instant, Fersio et al point out that an increase in dividends may lead to a decline in funds that are to be reinvested by the firm. Firms that pay high dividends without considering investment needs may therefore experience lower future earnings. Another scenario is that an increase in dividends may be the result of the management's policy to keep investors satisfied and prevent them from selling the share at times when future earnings are expected to decline or current losses are expected to continue. There is a negative relationship between dividend policy and future performance or earnings.

Similar studies are still scarce in the emerging markets. In Kenya, Murekefu and Ouma (2012) support the dividend relevant advocates. Their study examines the relationship between dividend payout and the performance of a firms measured by the net profit after tax for the period of 2002 and 2010. The study uses regression analysis to run the secondary data gathered from the financial statement 0f 41 listed companies and the findings show that dividend payout is a major factor affecting firms' performance, thereby support the bird-in-hand theory; that investors would appreciate what they can see as real earnings (inform of cash dividend) than accumulated wealth which can be affected by inflation.

Amidu (2007) examined the financial position of the companies and the relationship between financial position and profitability measured by the return on assets on the sample of listed firms on the Ghana stock exchange during the eight-year period (1997 - 2004). The result shows that dividend payout has a strong and significant impact on firms' profitability and concludes that dividend payout was a major factor affecting firm's performance.

From the empirical evidence, the results are very surprising and giving new dimensions to the finance researchers to further study in this area and find out the insight.

Historical Background of Rural Banks in Ghana

The concept of rural banking was conceived in the 1960s with the search for a system to tackle the financial problems of the rural dweller. During this period the need for a rural financial system in Ghana to tackle the need of small-scale farmers, fishermen, craftsmen, market women, traders and all other micro-enterprises was felt. The need for such a system was necessary because the bigger commercial banks could not accommodate the financial intermediation problems of the rural poor as they did not show any interest in dealing with these small-scale operators.

Attempt in the past to encourage commercial banks to spread their rural network and provide credit to the agricultural sector failed to achieve the desire impact. The banks were rather interested in the finance of international trade, urban commerce and industry. There was therefore a gap in the provision of institutional finance to the rural agricultural sector.

More important still, the branch networks of many banks cover mainly the commercial areas and do not reach down to the rural areas. Therefore, not only are rural dwellers denied access to credit from organized institutions, but also cannot avail themselves of the opportunity of safeguarding their money and other valuable property which a bank provides. The first rural bank, Nyakrom Rural Bank Limited, was opened in Agona Nyakrom in the central region in 1976. As a result of the invaluable financial services rendered in the rural areas, the rural banking concept suddenly became popular with a number of rural communities applying to Bank of Ghana to establish rural banks.

From Bank of Ghana (BoG) web site, as at the end of April 2016, 140 rural banks had been established. They are supervised by the clearing bank ARB Apex Bank under the regulation of the Bank of Ghana which owns shares in the banks. A distinguishing feature of the sector is the level of ownership by the private sector directly or through the capital market.

The role of rural banks includes; mobilizing resources from the catchments areas and lend them to deserving applicants in these areas. Decisions are taken locally and matters relating to disbursement and credit are attended to without delay. They help enhance businesses in the rural communities by helping them improve upon their various activities through the delivery of banking services. Also, they assist in the purchases of cocoa through Akuafo Cheques System in the cocoa growing areas (Nair & Fissha, 2010).

According to Nair and Fissha (2010), the achievements of the rural banks include; contributing to the construction of schools, health centers, provision of electricity and pipe-born water, awarding of scholarships to needy but brilliant students. They help enhance agricultural in rural communities by helping farmers' small-scale operators in various trades to improve their activities. Finally, rural banks help to inculcate banking culture among people in the catchments' areas.

Conceptual Framework

According to Kombo and Tromp (2009), a concept is an abstract or general idea inferred or derived from specific instances. A conceptual framework is a set of broad ideas and principles taken from relevant fields of enquiry and used to structure a subsequent presentation. Mugenda and Mugenda (2003) defined a conceptual framework as a hypothesized model identifying the model under study and the relationship between the dependent and independent variables. Kothari (2004) defined an independent variable also known as the explanatory variable as the presumed cause of the changes of the dependent variable, while a dependent variable refers to the variable which the researcher wishes to explain. The goal of the conceptual framework is to categorize and describe concepts relevant to the study and map relationships among them. Such a framework helps the researcher to define the concept, map the research terrain or conceptual scope, systematize relations among concepts and identify gaps in literature (Creswell, 2003).

The conceptual framework of the study was based on key concepts of the study and literature review. The conceptual framework was then used to analyze the results of the research. It was based on the dividend policy and it effect on performance of rural banks in Ghana. This is shown in the figure below;

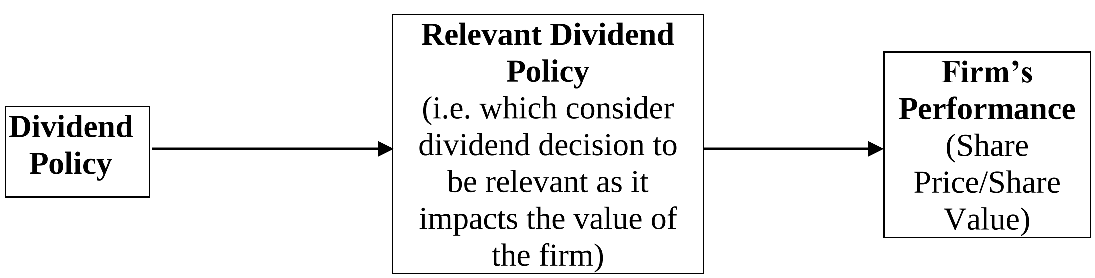

Figure 1: Conceptual Framework

Chapter Summary

Dividend policy is defined as a trade-off between retaining earnings on one hand and paying cash and/or issuing new shares on the other hand. In other words, it is the decision of the firm whether to pay out a large or a small proportion of its earning now or even pays no dividends to the shareholders (Bhattacharya, 1979).

Management are in difficult situation in deciding whether to pay dividends or to retain earnings for future investments, and if they should pay, what percentage of earnings. This problem arises because there are different and models that explain whether dividend policy affects the performance (value of shares) or not (Fischel, 1981).

For instance, Modigliani and Miller (1961), claim that dividend policy has no effect on either the price of a firm's shares or its cost of capital. MM argued that dividend policy is irrelevant. They assert that the value of the firm is determined by its basic earning power and risk class, and therefore, a firm's value depends on its asset investment policy rather than on how earnings are split between dividends and retained earnings. They argued based on the following assumptions;

i. no floatation cost
ii. no taxes
iii. no transaction cost
iv. perfect information, and
v. Firm's investment policy

They claim that if the above factors exit, dividend policy has no effect on shareholders wealth. They reasoned that if a firm pays dividends, the value of the firm goes down with a corresponding increase in the cash held by shareholders and because of no floatation cost, a dividend paying firm can still pursue the same capital projects since they can issue new shares in capital market to replace cash lost by dividend payment (Modigliani & Miller, 1961).

The "Bird-in-hand theory", developed by Gordon (1961, 1962), asserts that in a world of uncertainty and information asymmetry, dividends are value differently to retain earnings (capital gains). Because of uncertainty of future cash flow, investors would often tend to prefer dividends to retained earnings. As a result, a higher payout ratio would reduce the required rate of return (cost capital), and hence increase the value of the firm. In other words, they claimed that investors prefer dividends and the more dividends the company pays out, the higher its share price and lower its cost of equity.

Litzenberger and Ramaswamy (1979) in their Tax Preference theory state that investors want companies to retain earnings and thus provide returns in the form of flower-taxed capital gains rather than heavily taxed dividends. In the other words, low dividend payout ratios lower the required rate of returns and increase the market valuation of the firm's shares.

The clientele effects theory says that investors may be attracted to the types of shares that catch their consumption or savings preferences. That is, if dividend income is taxed at a higher rate than capital gains, investors (or clienteles) in high tax brackets may prefer non-dividend or low dividend paying shares, and vice-versa. Also, presence of transaction cost may create certain clienteles, for example, to avoid the transaction cost associated with selling shares, small investors (e.g. incomes-oriented) who rely on dividend incomes to satisfy their liquidity needs may prefer to invest in steady and high-dividend paying shares. For the same reason, wealthy investors who are not relying on dividend income may be attracted to low pay-out shares. In other words, if a firm increases its dividend payout ratio, the dividend lowers would buy shares and capital gain lowers would sell shares. Therefore, there would be no change in the value of firm's shares.

According to the information content of dividends or signaling theory, firm, despite the tax penalty relative to capital gains, firms may pay dividends to signal their future prospect. The intuition underlying this argument is based on the information asymmetry between managers (insiders) and outside investors, where managers have private information about the current and future fortunes of the firm that is not available to outsiders. Here, managers are thought to have the incentive to communicate this information to the market. According to signaling models (Bhattacharya 1979, John and Williams 1985, and Miller and Rock 1985), dividends contain this private information and therefore can be used as a signaling device to influence share price. An announcement of dividends increases is taken as good news and accordingly the share price reacts favourably, and vice-versa.

Only good quality firms can send signals to the market through dividends and poor-quality firms cannot mimic this because of the dissipative signal cost

(for e.g. transaction cost of external financing, or tax penalty on dividends, distortion of investment decisions)

CHAPTER THREE

RESEARCH METHODS

Introduction

The main purpose of the study was to look at the impact of dividend policy on the performance of Rural Banks in Ghana. Managements in corporate organizations are in difficult situation as to the type of dividend policy to adopt in order to maximize shareholders wealth. It is the decision of the firm whether to pay out a large or a small proportion of its earning now or even pay no dividend to the shareholders. Any decision on dividend payment by management would either have positive or negative impact on the share value or performance of the company.

This chapter describes in detail, the methods used, specific steps taken, the tools employed in the collection and analysis of data needed to address the research problems. It focused on research design, study area, population, sampling procedure, data collection instruments, data collection procedures, data processing and analysis, as well as chapter summary.

Research Design

In this study, qualitative, descriptive, action research method with questionnaires and interviews were employed to collect data for this study.

Best (1981) describes qualitative research as the means of describing, recording, analyzing and interpreting conditions that exist. It also takes care of some types of comparison and contrast and attempt to discover relationships between existing non-manipulated variables.

Carey (1953) defines action research as, A process in which practitioners study problems scientifically so that they can evaluate, improve and steer decision making and practic. The purpose of selecting action research was its format used in writing the completed research which focused on the title of the study, introduction, literature review and methodology to generate finding that would be used to improve conditions or situations of a problem under study.

Study Area

Kumasi was the location of the study. Rural banks in Ashanti region having branches in Kumasi, the regional capital was considered.

Population

At the moment we have one hundred and forty (140) Rural Banks in Ghana. And out of the one-hundred and forty Rural Banks are twenty-five (25) Rural Banks in Ashanti Region. For the purpose of this research, the population of the study comprised the shareholders and financial managers of rural banks having branches in the Ashanti regional capital: Kumasi.

Sampling Procedure

For this study to have representational faithfulness and its conclusions and recommendations accepted to represent the true view of Rural Banks in Ghana, some of the Rural Banks in Ghana have been selected for this study. The financial results of these companies from 2012 to 2014 were examined.

Collecting and analyzing data from every possible case or group are sometimes not possible due to time limitation, cost, convenience or nonavailability of data. Instances like these, a sampling technique is employed to select cases to represent a whole. Sampling techniques provide a range of methods that allow a researcher to reduce the amount of data needed to collect, by only selecting from population some cases to represent the whole (Saunders, Lewis & Thornhill, 1997). The size and the method of sampling can affect the generality of the findings and therefore samples must be carefully selected to minimize bias.

In view of the above, Rural Banks in Ashanti Region having branches in the regional capital, Kumasi, were selected. But only seven rural banks out of ten (10) rural banks branches centered in Kumasi were prepared to give the requirements.

The companies are, Atwima Kwanwoma Rural Bank, Bosomtwe Rural Bank, Adansi Rural Bank, Nwabiagya Rural Bank, Asokore Rural Bank, Otuasekan Rural Bank and Odotobri Rural Bank.

In selecting the companies for the study, the multi-stage sampling was used. The Rural banks in Ghana were divided into clusters, thus according to the ten regions. Those rural banks in Ashanti Region were also divided into those having branches in Kumasi. For the purpose of this study, all the ten (10) rural banks having branches in Kumasi were considered but Seven (7) out of the ten responded and were selected as the sample size for this case study.

Data Collection Instruments

For the purpose of this research, two main instruments were used. They were questionnaires and interviews. The instruments were developed by the researcher with input from other executives and shareholders. The questionnaires were designed in two (2) kinds; one for the selected companies and the other one for the shareholders.

The company's questionnaires were administered to only the financial managers due to the information needed for the study. All the financial managers of the selected rural banks responded; thus 100% rate of response. The literate shareholders were given the questionnaires and the illiterate shareholders were interviewed according to the questionnaires. And the response rate for the literate shareholders was 100%.

Data Collection Procedures

This study relied on the use of both primary and secondary data. The primary sources of data were collected through the administration of questionnaires and interviews. The questionnaires were administered to finance managers of the selected companies. It was necessary to find out from managers the dividend policy they were implementing and the reaction of shareholders to the managers. Again, questionnaires were designed in addition with interviews to find out the stand of shareholders about the dividend policies and share price.

Prior to administering the questionnaires, the importance of the research was explained to the respondents and they were encouraged to be faithful and diligent with their response to make the research worthwhile.

The questionnaires were ministered personally to the financial managers and shareholders of the selected rural banks. Again, informal interactions on the subject matter were conducted with the other executives and shareholders of the selected rural banks. This exercise enabled the researcher to further pry into sensitive areas of the rural banks operations, which were not captured on the questionnaires. The concept of personally administering the questionnaires personally stems from the idea of minimizing data collection errors, thereby giving authenticity to the overall findings.

The sources of Secondary data are from the financial reports of the selected companies. From the financial reports of the selected companies the share prices, the dividend per share from 2012 to 2014 were used for the analysis.

The data collection for this study covered a period of four (4) weeks. Visits were made to the web sites of the various companies to view the financial reports of the sampled companies.

Data Processing and Analysis

Data collected (via questionnaires and the response from the interviews) which were both primary and secondary data were processed using a software package called Statistical Package for Social Sciences (SPSS v.22) and Microsoft Excel Software. Data analysis is a process which involves drawing conclusions and explaining findings in words about a study (Creswell, 2005). The secondary data will be analysed by employing descriptive statistics, correlation and regression to test hypotheses. Quantitative explanations were made of quantitative data to give meaning to them as well as explain their implications. From these, appropriate conclusions and recommendations were made from the findings of the research.

Pre-test of Questionnaires

The study pre-tested the questionnaires with key literature such as Oballah et al. (2015) and Anichebe and Agu (2013) as well as some experts. The rationale behind this exercise was to ascertain the level of understanding of the items in the questionnaire and to achieve face validity of the data collection instrument. Also, it was to find out whether the feedback from the pre-test provides the type of information needed or whether the respondents were misinterpreting any of the questions. After this exercise, some of the items in the questionnaire were deleted and others were improved upon.

Ethical Considerations of the Study

There was the need to ensure that the study did not contravene the ethical issues. Hence, the following measures were taken:

Financial managers and shareholders were assured of their utmost confidentiality with regards to information provided. Data obtained were treated with confidentiality. Those who participated in the study were not coerced but did so voluntarily. The consent of the respondents was obtained before they participated in the research. As much as possible, the researcher exercised a great deal of circumspection and objectivity throughout the research period.

Chapter Summary

The study looked at the impact of dividend policy on the performance of rural banks in Ghana. Qualitative, descriptive and action research methods with questionnaires and interview were employed. Annual reports of the selected rural banks were used. Rural banks in Ghana form the population and rural banks in Ashanti region having branches in the region's capital town, Kumasi, were selected. Statistical package for social sciences was used in processing the data which was analysed by the use of tables and charts.

Problems confronted in the course of the data collection were:

1. It was difficult to gather the information from their head offices
2. Most of the companies delayed in responding to the questionnaires administered to them. One of their reasons was the busy preparation of their first quarter reports.
3. Retrieving the questionnaires given was a problem because some misplace them and others were reluctant to provide the information required.
4. Getting funds to finance the travelling expenses, printing of questionnaires and others were a problem.

CHAPTER FOUR

RESULTS AND DISCUSSION

Introduction

The main purpose of the study was to determine the impact of dividend policy on the performance of Rural Banks in Ghana. This chapter deals with the findings of the study and the discussion of the results of the analysis. The chapter therefore gives detailed information of the textual data collected and the results obtained from the study. Questionnaires were given to seven selected Rural Banks in Kumasi, Ashanti region to know their dividend per share and their share values. The interview was done by the Researcher.

Findings of the Study

The primary data collected would be analyzed using tables in the subsequent pages:

Table 1: Demographics of Shareholders

Sex of Shareholders			
Sex	Frequency	Percent (%)	
Male	22	56.4	
Female	17	43.6	
Total	39	100.0	
Ages of Shareholders			
Age	Frequency	Percent (%)	
Below 18	0	0	
18-45	13	33.3	
46-60	18	46.2	
Above 60	8	20.5	
Total	39	100.0	
Sector of Employment of Shareholders			
Sector of Employment	Employed		
	Yes	No	Total
Private Sector	14	-	14
Public sector	8	-	8
Self employed	13	-	13
Unemployed	-	4	4
Total	35	4	39
Level of Income and Investment of Shares			
Monthly Income	Invest in Share		Total
	Yes	No	
¢200.00 - ¢400.00	11	-	11
¢400.00 - ¢600.00	17	-	17
Above ¢600.00	7	-	7
Not applicable	4	-	4

Source: Fieldwork, Yamson (2016)

The Table 1 shows that the number of males was more than the number of females from the table 22 out of 39 representing 56.4% were male whiles 17 out of 39 representing 43.6% were females. The table shows that the number of males were more than the number of females’ shareholders who were interviewed.

From Table 1, out of 39 representing 33.3% were the ages between 18years – 45years. 18 representing 46.2% were the ages between 46years – 60years. While 8 representing 20.5% were ages above 60years. This shows that a greater number of the respondents were within the ages of 46years – 60years.

Table 1, shows the number of respondents (shareholders) employed and their sector of employment. Out of the 39 respondents, 35 were employed and 4 were unemployed. Also, the 35 who were employed were in these sectors; private sector 14, public sector 8 and self-employed 13.

Table 1 also indicates the monthly income of respondents and number of respondents who invest in shares. All respondents invest in shares no matter the range of their income. Also, 4 of the respondents whom do not work, forming the not applicable also invest in shares.

Table 2: Reasons behind Investment of Shares

Reasons for Investing in shares	Frequency	Percent
Investing in shares as long term financial investment	14	35.9
As a means of ascertaining profit	21	53.8
Investing in shares to be part owner of the company	4	10.3
Total	39	100.0

Source: Fieldwork, Yamson (2016)

The Table 2 shows reasons why respondents invest in shares. Those who invest as long term financial investment are not interested in the payment of dividend currently but want to increase their wealth (investment) which yields a higher dividend in future. Those investing as a means of ascertaining profit want immediate payment of dividend which indicates higher percentage of 53.8%. Lastly, the final groups who invest to be part owners of the companies are not interested in the dividend but rather they just invest for the prestige of becoming members of the companies.

Table 3: Awareness of Dividend Payment by Shareholders

Dividend Awareness	Frequency	Percent
Yes	33	84.6
No	6	15.4
Total	39	100.0

Source: Fieldwork, Yamson (2016)

The Table 3 indicates whether respondents know the dividend policy of the companies they invest. Greater percentages of respondents (shareholders) were aware about the dividend policy and less percentage of shareholders were not. The table shows 84.6% shareholders know the dividend policy of their invested companies while 15.4% shareholders do not know the dividend policy of their invested companies.

Table 4: Declaration Dividend

Declare of Dividend by Firms		Total
Yes	No	
29	4	33
4	2	6
33	6	39

Source: Fieldwork, Yamson (2016)

The Table 4 shows whether dividend should be declared or not, 33 out of 39 shareholders want dividend to be declared.

Table 5: Declaration of High or Low Dividend

Dividend Declaration	Frequency	Percent
High	31	79.5
Low	8	20.5
Total	39	100.0

Source: Fieldwork, Yamson (2016)

The Table 5 indicates whether companies should declare high or low dividends. 31 representing 79.5% of the total number of shareholders wants companies to declare a high dividend.

Table 6: Forms of Dividend Payment Shareholders Prefer

Forms of Dividend Payment	Frequency	Percent
Cash dividend	23	59.0
Stock dividend	4	10.3
Both cash and stock dividend	12	30.7
Total	39	100.0

Source: Fieldwork, Yamson (2016)

The Table 6 gives the form shareholders want dividend to be declared. From the table, out of 39 shareholders, 23 (59.0%) want cash, 4 (10.3%) want stock and 12 (30.7%) want both cash and stock.

Table 7: Dividend Payment and its Policies of Shareholders Invested Companies

Dividend Payment Policy		Total
High	Low	
24	15	39
24	15	39

Source: Fieldwork, Yamson (2016)

The Table 7 above gives whether the companies of respondent pay dividend or not and if they pay, is it high or low. It is observed that all, the 39 respondents (shareholders) say yes representing their invested companies pay dividend. Also 24 out of the 39 admitted high dividend and 15 admitted that their companies pay low dividend.

Table 8: Shareholders Decision Behind Company's Dividend Policy

	Frequency	Percent
Maintain	23	59.0
Change	16	41.0
Total	39	100.0

Source: Fieldwork, Yamson (2016)

The Table 8 shows whether shareholders want the dividend policy of their companies to be maintained or change. Also, dividend policy which should be maintained represent high dividend whilst dividend policy to be changed represent low dividend payment. From the table 10, 23 shareholders want their dividend policy to be maintained and 16 shareholders want their dividend policy to be changed.

Table 9: Motive behind the Purchase of Share of Companies

	Frequency	Percent
Low share price	8	20.5
High share price	6	15.4
High dividend per share	21	53.8
Low dividend per share	4	10.3
Total	39	100.0

Source: Fieldwork, Yamson (2016)

The Table 9 above shows what prompt people to buy shares of a particular company. It can be observed that the majority that is 53.8% buy shares because of high dividend per share.

Table 10: Situations when Shareholders Buy Shares at High Price

	Frequency	Percent
High dividend per share	31	79.5
Low dividend per share	2	5.1
No dividend payment	6	15.4
Total	39	100.0

Source: Fieldwork, Yamson (2016)

The Table 10 shows when people would still buy shares even when share price increases. From the table, 79.5% said at high dividend per share. 5.1% said low dividend per share and 15.4% said no dividend payment.

Table 11: Situation when Shareholders Buy More Shares

	Frequency	Percent
At high share price	10	25.6
At low share price	29	74.4
Total	39	100.0

Source: Fieldwork, Yamson (2016)

This Table 11 shows whether people would buy more shares at high share price or at low share price. From the table, 10 representing 25.6% said at high share price whilst 29 representing 74.4% said at low share price.

Table 12: Dividend Payments

	Frequency	Percent
Yes	7	100.0

Source: Fieldwork, Yamson (2016)

The Table 12 shows whether the companies pay dividend or not. From the table all the 7 companies representing 100% pay dividend.

Table 13: Forms of Dividend Payment

	Frequency	Percent
Cash dividend	7	100.0
Stock dividend	0	0.0
Both	0	0.0
Total	7	100

Source: Fieldwork, Yamson (2016)

This Table 13 shows the form in which the companies pay their dividend. From the table 16, all the 7 companies representing 100% pay cash dividend.

Table 14: Preferences of Shareholders

	Frequency	Percent
Dividend	6	85.7
Capital gains	1	14.3
Total	7	100.0

Source: Fieldwork, Yamson (2016)

This Table 14 shows the policy that shareholders of companies want. It can be seen that, 6 representing 85.7% want dividend and 1 representing 14.3% want capital gain.

Table 15: Reason behind Increase in Shareholders Structure

	Frequency	Percent
Increase in dividend payment	7	100.0

Source: Fieldwork, Yamson (2016)

The Table 15 above shows the policy that has resulted in an increase in the shareholding structure of a company. From all the 7 companies increased dividend payment has resulted in increased shareholdings.

Table 16: Decrease in Shareholding Structure

	Frequency	Percent
Decrease in Dividend	3	42.9
No Dividend payment	4	57.1
Total	7	100

Source: Fieldwork, Yamson (2016)

From the Table 16, three companies representing 42.9% said due to a decrease in dividend payment while four companies also said due to no dividend payment representing 57.1% has resulted in decrease in their shareholding structure.

Table 17: Dividend Per Share

Company	2012	2013	2014
Adansi	0.16	0.16	0.18
Bosomtwe	0.14	0.19	0.20
Otuasekan	0.10	0.14	0.20
Odotobri	0.080	0.18	0.20
Asokore	-	-	0.008
Nwabiagya	0.02	0.20	0.22
Atwima	0.025	0.30	0.40

Source: Annual Report and financial Statements (2012 - 2014)

The Table 17 shows the dividend per share paid by the various companies from 2012 to 2014 accounting year. The table indicates that there was an increase in dividend payment each year. Atwima Kwanwoma Rural bank paid higher dividend than the rest of the companies thus Adansi Rural Bank, Otuasekan Rural Bank, Bosomtwe Rural Bank, Nwabiagya Rural Bank, Odotobri Rural bank and Asokore Rural Bank even though there was an increase in dividend.

Table 18: Share Price and Companies

Company	2012	2013	2014
Adansi	0.10	0.10	0.10
Bosomtwe	0.30	0.30	0.10
Otuasekan	0.10	0.15	0.20
Odotobri	0.20	0.30	0.30
Asokore	0.40	0.40	0.40
Nwabiagya	0.15	0.15	0.15
Atwima	0.50	0.50	0.50

Source: Annual Report and Financial Statement (2012 - 2014)

The Table 18 shows the share price at the end of each accounting year from 2012 to 2014. From the table, Atwima Kwanwoma Rural Bank and Asokore Rural Bank recorded high share price as compared to the other companies. The share prices for the various periods were low.

Table 19: Increase in Dividend Payment

Reaction	No.	Percent
Shareholders would be satisfied	3	42.9
Shareholders would buy more shares	4	57.1
Total	7	100

Source: Fieldwork, Yamson (2016)

The Table 19 shows the reaction of shareholders in adopting the various dividend policies of the companies. From the table, three companies representing 42.9% admitted that shareholders would be satisfied with an increase in dividend while four companies representing 57.1% said shareholders would buy more shares.

Table 20: No Change in Dividend Payment

Reaction	No.	Percent
Request for explanation	3	42.9
Sell shares	3	42.9
Requesting for Auditing	1	14.2
Total	7	100

Source: Fieldwork, Yamson (2016)

This Table 20 shows the reaction of shareholders when companies does not declare dividend. Three companies representing 42.9% said shareholders would request for explanation, three other companies also said they would be selling of their shares and also one company representing 14.2% said the shareholders would request for an audit.

Table 21: A Reduction in Dividend Payment

Reaction	No.	Percent
Dissatisfied	3	42.9
Sell shares	1	14.2
Hope for higher dividend in future	3	42.9
Total	7	100

Source: Fieldwork, Yamson (2016)

The Table 21 shows the reactions of shareholders when companies reduce dividend payment from the table three companies representing 42.9% said shareholders would be dissatisfied, three companies also said they would hope for higher dividend in future and only one company representing 14.2% said shareholders would sell off their shares.

Table 22: Effect of Dividend Payment on Share Price

Response	Frequency	Percent
Yes, lead to rise in share price	6	85.7
No, lead to no change in share price	1	14.3
Total	7	100

Source: Fieldwork, Yamson (2016)

The Table 22 shows whether the company's dividend payment has had any impact on its share price. Six companies representing 85.7% answered yes, which implies that the companies' dividend payment had effect on its share price and only one company representing 14.3% said the dividend payment had no effect on its share price.

Table 23: A Reduction in Share Value

	Frequency	Percent
Increase their shares	4	57.1
Maintain their shares	3	42.9
Total	7	100.0

Source: Fieldwork, Yamson (2016)

The table 23 shows how shareholders react to change in share prices. Four companies representing 57.1% said shareholders would increase their shares and three companies representing 42.9% said shareholders would maintain their shares.

Discussion of the Results

The study looked at the relationship between dividend payment and performance. A positive growth rate of dividend implies that the company has good prospects and would do well in future. The shareholders who invest in companies as a long-term investment do not have influence in investment decision but shareholders who invest as a short-term investment take into consideration investment decision.

From the analysis shareholders prefer to buy share at low price while companies also want to maximize profits in order to improve upon their dividend payment. Shareholders predicted how well a company would do in a subsequent year by referring to their level of dividend.

They predict a company would do better in the following year if its current year dividend is high. They were therefore ready to buy more shares if the current year dividend was high.

Chapter Summary

The study looked at the impact of dividend policy on the performance of rural banks in Ghana. Results were mainly presented in a tabular format which essentially discussed the demographics of the shareholders, declaration of dividend and forms of dividend payment. The chapter also discusses the motives behind the purchase of shares of companies, situation where firms buy more shares and at a higher price. The various forms of dividend payments such as cash, stock and both were discussed. The dividend and price per share of each rural bank from their financial statements were analysed from 2012 to 2014. Finally, the effect of dividend payments on share prices where 85.7% of the shareholders asserted to the fact that it leads to a rise in share prices.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

The main purpose of the study is to determine the impact of dividend policy on the performance of Rural Banks in Ghana. Research questions which guided the study are as follows:

1. What are the dividend payout policies of selected rural banks in Ghana?
2. What is the relationship between performance and dividend payout policy of selected rural banks?
3. What is the value shareholders place on the amount of dividend payout?

Qualitative, descriptive and action research methods with questionnaires and interview were employed. Annual reports and financial statements of the selected rural banks were also used, from 2012 to 2014. Rural banks in Ghana form the population and rural banks in Ashanti region having branches in the region's capital town, Kumasi, were selected. Statistical package for social sciences was used in processing the data and the use of tables and charts for analyzing the data.

In this chapter, the summary, conclusion and recommendation of the study were outlined.

Summary of Findings

Dividend payout policies

The analysis was performed using data derived from the selected companies and shareholders. In Ghana some companies pay dividend at a varying rate while others pay at a steady growth. Companies that pay lower dividends may probably like to retain their earnings to build up reserves to meet the growth needs of the company as well as maintain their liquidity to ensure better payment of dividends in the future. Other firms that pay high dividends use it to signal to investors the ability of management to earn high profits and consequently increase the value of the firm. In addition, management take into consideration the level of earnings, the net cash inflow available, investment opportunities, the laws regulating the payment of dividends and many other factors before determining the amount of dividend to be paid out.

Relationship between performance and dividend policy

The research revealed that there is a positive correlation between dividend payment and performance (share value). This implies that the firms with lower dividend payment have their share price being lower or stable for a stipulated period but the firm with a higher dividend payment have their share price higher. Shareholders, also, look at how well a company was doing and predict the company's position of dividend by the future. How well a company was doing was determined by the companies past and current dividend payment. Some of the shareholders who responded to the questionnaires gave an impression that they had not seen any effect of dividend payment on firm performance. A greater percentage of the shareholders said the dividend paid by their invested companies have greater impact on their share price, since the dividend payment determines the performance or the shares price of the companies.

The Value shareholders place on the amount of dividend payment

The shareholders who responded to the questionnaires gave and impression that they are less certain of receiving future growth and capital gains from reinvested retained earnings than they are of receiving current dividend payments. From the findings, shareholders place high value on a cedi of current dividends that they are certain to receive than on a cedi of expected capital gains. Shareholders also place value on high amount of dividend payout because it depicts or signal that the firm is doing well. If a rural bank has a long history of the past dividend payments, reducing or eliminating the dividend amount may signal to shareholders that the company could be in trouble. Shareholders value high amount of dividend payment as it provides certainty about the rural bank's financial wellbeing and also secures shareholders current income.

Conclusions

From the study it could be realized that dividend payment has a positive relationship with performance. This relationship is due to the theory of demand. When a company's dividend payment rises or the dividend is very high, this would invite more investors in the firm to enjoy high payment and all other things being equal the share price of the firm increases and the vice versa. Also, when management pays out dividend they send out good signal about the firm's performance and therefore attracting more customers to deal with. There is no gain saying the fact that strict attention paid on dividend policy by rural banking institutions would lead to a better performance result. It therefore behaves on management to craft an ideal dividend policy that would appeal to shareholders the most as a way of returning value to them by virtue of their sacrifices made. From the findings, the conclusion to be drawn is that dividends policy has impact on performance of rural banks in Ghana.

Recommendations

Findings of the study suggest that company's dividend policy or payment have affected or determined the market value of its shares, i.e., the company performance. It can then mean that companies base on their earnings to declare dividend which greatly affect the share price or the performance of the firm.

It was found out that companies that have a long-standing history of stable dividend payment would be negatively affected by lowering dividend distribution and these companies would be positively affected by increasing dividend payment.

Furthermore, companies without a dividend history would be generally viewed favourably when they declare dividend.

It is therefore recommended that dividend paying companies should continue to maintain a steady growth in dividends unless there is a very good reason to make profit and expand. Upholding or accomplishing a steady growth in dividends, constant and steadily increasing dividend policies may be adopted whilst management adopt stringent measures to curtail agency problem. Because there are different shareholders preferences, companies should find out from their shareholders what suit their preferences before dividends policy decisions are made.

Further Research

It must be noted, however that only an aspect of dividend payment and its impact on performance was looked at. More studies should be conducted to find out what factors affect the firm performance aside dividend payment or policy. Also, the study is solely confined to Ghanaian rural banks and hence the analysis may be limited in scope compared to other non-banking industries. And further research could also be carried out in a different non-banking industry, that is manufacturing, distribution, insurance or retail companies depending on the potential researchers' preference. Finally, as a way of robustness check, further research could also be carried out in the same banking industry increasing the scope to cover listed commercial banks whiles using different performance measure.

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APPENDIX A

QUESTIONNAIRE TO COMPANIES

1. Name of your company…………………………………………………….

Does the company pay dividend?

Yes [ ]

No [ ]

2. If yes, in what form does the dividend take?

Cash dividend [ ]

Stock Exchange [ ]

Both [ ]

3. Which of these do shareholders of your company prefer:
   - Dividend [ ]
   - Capital gains [ ]

4. Which of these has resulted increase in shareholding structure of your company
   - Decrease in dividend payment [ ]
   - Increase in dividend payment [ ]
   - No dividend payment [ ]

5. Which of these has resulted in decrease in shareholding structure of your company?
   - Increase in dividend payment [ ]
   - Decrease in dividend payment [ ]
   - No dividend payment [ ]

6. Dividend per share at the end of the accounting year, for

- 2012 ……………………………….
- 2013 ……………………………….
- 2014………………………………..

7. Share price at the end of the accounting year, for

- 2012……………………………….
- 2013 ……………………………….
- 2014 ………………………………..

8. How would shareholders react to any of these

(a) A high increase in dividend payment

…………………………………………………………………………
………………………………………………………………………
…………………………………………………………………………
………………………………………………………………………

(b) No change in dividend payment

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…………………………………………………………………………
…………………………………………………………………………
………………………………………………………………………

(c) A reduction in dividend payment

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…………………………………………………………………………
…………………………………………………………………………
…………………………………………………………………………
………………………………………………………………………

9 How would the shareholders react to the change in share price?

(a) An increase in share price

1. Increase their share s [ ]
2. Sell their shares [ ]
3. Maintain their shares [ ]

(b) A decrease in share price

1. Increase their share s [ ]
2. Sell their shares [ ]
3. Maintain their shares [ ]

10 Has the company's dividend payment had any effect on its share price

……………………………………………………………………………………

……………………………………………………………………………………

……………………………………………………………………………………

……………………………………………………………………………………

APPENDIX B

QUESTINNAIRE TO SHAREHOLDERS

SECTION A

1. Sex:

   Male [ ] Female [ ]

2. Age:

   Below 18 [ ] 18 – 45 [ ] 46 – 60 [ ]
   Above 60 [ ]

3. Are you employed:

   Yes [ ] No [ ]

4. If 'Yes' what kind of employment:

   Private Sector [ ] Public Sector [ ] Self-employed [ ]

5. Monthly Income:

   Below GH¢ 200.00 [ ] GH¢ 200.00 - ¢ 400.00 [ ]

   GH ¢ 400.00 - ¢600.00 [ ] Above GH¢600.00 [ ]

SECTION B

1. Do you invest in share of companies?

   Yes [ ] No [ ]

2. Give reason (s) for your answer ……………………………………

3. Are you aware of the dividend policy of the company you are?

4. Do you want the firm to declare dividend?

    Yes [ ] No [ ]

5. If 'Yes' high or low dividend:

    High [ ] low [ ]

6. In what form do you want the company to pay dividends:

    Cash dividend [ ] Stock dividend [ ]

    Both Cash and Stock dividends [ ]

7. Is the company you are investing in paying dividends:

    Yes [ ] No [ ]

8. If 'Yes' high or low:

    High [ ] low [ ]

9. Do you want the firm to maintain the policy or change?

    Maintain [ ] Change [ ]

10. Do you buy shares of a particular company? Is it because of:

    (a) Low share price [ ]

    (b) High share price [ ]

    (c) High dividend per share [ ]

    (d) Low dividend per share [ ]

11. Why do shareholders buy shares at high price in a particular company?

    (a) Share price falling [ ]

    (b) Share price rising [ ]

    (c) Low dividend per share [ ]

    (d) High dividend per share [ ]