

Factors Influencing Dividend Payment Decisions: A Case of Mutual Funds in Tanzania

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Abstract

The study aimed at investigating the factors influencing dividend payout decisions of mutual funds in Tanzania for panel data in the time interval of 2019 to 2022. Using the modified Lintner model as a theoretical framework, explanatory research design was used. Employment of explanatory variables including past dividend, free cash flow, liquidity, sales growth, return on assets, financial leverage, firm size and market risk and using descriptive and inferential statistical tools i.e. correlation, fixed effect and random effect regression models the facts were realized. The results of analysis found that dividend payout decision is positively and significantly affected by past dividend and return on assets. Also it was revealed that free cash flows, liquidity, sales growth, financial leverage, firm size had a positive and insignificant effects on dividend payout decision. Either market risks revealed to have negative and insignificant influence on dividend payout. These results therefore recommend that mutual funds management should make much concentration on paying for floating dividend. Furthermore, the findings remind mutual funds management to ensure firm makes profit for firm realize performance, cash inflows, liquidity and growth. Satisfactory payment of dividend ensures for a firm value increase, firm growth and investors prosperous measured in terms of increase in financial leverage. Increase in financial leverage is the firms' management performance which expects to help hedge the market risks for market efficiency hypothesis being realized important for perpetual future dividend payment.

Keywords: dividend payment, mutual funds, Tanzania.

1. Introduction

Dividend payment decisions have been a current topic most which attracts most of portfolio managers into discussions regarding how much to be paid as dividend and how much is to be retained (Budagaga, 2020). Normally every incorporated firm is entitled in paying dividend to its shareholders. That means dividend payment decisions details on the size of dividend to be paid to investors but also how much is to be retained. The debate or discussion on how much to pay and how much to retain for growth of the firm is what has brought this topic under discussions (Labhane, 2019). As it has noted above though in that nutshell, shareholders' target (Barros, Matos, Sarmiento & Vieira, 2021), firms' targets (goal) (Eka, 2018) and changes in macroeconomic variables (Romus, Anita, Abdillah & Zakaria, 2020) have been the main underlying factors of bringing dividend payment into discussions.

Dividend decisions and shareholders interest are two factors which are correlated to each other (Belda-Ruiz Sanchez-Marin & Baixauli-Soler, 2021). This hold a fact that shareholders require a firm read shareholder wealth. It is from the maximized shareholders' wealth that would retain shareholders. Shareholders are investors like other investors in which the return from their investment should be certain for them continue

injecting shares/capital (Hasanuddin, 2021). Shareholders do bring in equity creating free cash flow which enables a firm become liquid and become able to finance its operations. Thus if these shareholders do not get what they expected called return from investment measured in term of return on assets they normally withdrawal from the firm. Withdrawal of shareholders might become straining force for prosperous of the firm as now the firms operations become financed by debt (Bataineh, 2021). Debt financing play role in improving sales of the firm in a manner that if efficiently allocated a firm attain a rapid growth. But inefficiency allocation of debt-money worsens the firm in which the firm might undergo insolvency before declared bankruptcy. The expected rise in firm value would not be observed but instead the firm would lose its financial adequacy and finally the firm might wound up or cease its operations.

Dividend brings the management team into discussion in order to ensure adequacy on retained earnings. This is firms' targets or interest which has found to affect the dividend payout decisions desirably (Nyere & Wesson, 2019). It should be knote out that while shareholders are paid dividend; the firm profit/return cannot be realized (Triani & Tarmidi, 2019). That means firms' target (goal) or simply interest count as one of the important factor that influence dividend payment decision (Murniati, Mus, Semmaila & Nur, 2019). If say a profit would wholly paid as dividend both to preference and ordinary shareholders none would be retained. None retention of profit lead to retardation of the firm (shrinking of firm size and diminishing of financial leverage) as now the firm would not be liquid to be able to finance its plans. Retained profit is the internal source of financing which is cheap and not subjected into deductions such as interest and tax as it to debt financing. Thus balancing the situation on how much is to be paid as dividend and how much has to be retained need firms' management come into effective discussion and come with collaborative conclusion which trade off the firm growth/profitability and firm value.

Dividend payment decision is also affected by market risks including inflation, exchange rate and interest rate movement (Banchit, Abidin, Lim & Morni, 2020). These macroeconomic variables intent to distort cash inflows. Thus discounting for these macroeconomic changes/risks is a mandatory managerial practice. Moreover, discounting for these distortions function to effectively absorb great distortions that could be associated with them. Discounting for inflation help to sustain transaction or investment expense which help a firm perform. Leaving firm cash flows (expected returns) not discounted is like planning for great distortions which might disrupt both the firm value and shareholders' wealth (Celebi & Honig, 2019). Thus it is by accommodating for this floatation which carries out dividend decision into discussion. As it has pointed above occurrence of business risks tend to distort expected returns, the same discussion should go to dividend decisions detailing on how much is to be paid as a dividend during the time of great distortions and how much is to be retained. Moreover the dividend decision came into pack when distortions are not much propounded. This is what makes the factor, changes in macroeconomic environment to be major factor to be considered in dividend payment decisions(discussion) when it come at a point on how much is to be paid as a dividend full filing shareholders' interest and how much is to be retained for the prosperous of the firm.

In Sweden dividend payment decisions found to be affected by shareholders' interest

(Hallstrom, 2019). Normally incorporation allows investment in which the owner of the business became a principal and management function as agent. Thus a corporation stand as artificial person between the owners and management called agency-principal relationship (Chester man, 2020). Shareholders as investors would like to realize expected returns, thus by paying dividend is a certainty for them continue injecting shares or donating the firm for sustainable foreseeable future operation. Dividend payment therefore does not only attract new investors but also retain the prospectus.

In Brazil (Sanvicente, 2021) revealed that firm targets was the main underlying predictor which influence dividend decisions. It was revealed that by paying less dividend help to retain more as a profit for the growth of firm. It was with dividend payout ratio (DPS/EPS) of 20% which found to retain more profit for the growth of the firm. It is by 5 times profit retentions in which profit obtained say in a long run can be sustainably paid as a dividend. With this either little/none dividend payment is relevant to rise in the firm value and therefore consistent fact that paying for dividend reduces firm performance/efficiency in which its value also decreases.

In Uganda paying for dividend to investors by mutual funds revealed to favor shareholders interest (Tumwebaze et al., 2022). From 85% of dividend yield extracted, it was distributed in prorata basis in manner that investors contributed more shares also received more dividend as expected return and vice versa to small contributors of shares (equity capital). This is the fact because someone to invest expect a return, opposite to that an investor cannot even bear to invest its money to a particular scheme or business firm.

2. Literature Review

The study adopted the Lintner (1956) partially adjusted model modified by Brittain (1964), Charitous and Vafeas (1998) and Adelegan (2000). The model proposes on dividend payout to be a function of distributable total earnings. Distributable is a profit after tax from which a dividend is to be deducted. Lintner model said that dividend payout dependent payout depend on the amount of dividend to be paid prior the net investment or earning per share. The theory stipulates on dividend payment basing on the shares value or net investment equal to share value of the firm is the capital share (injected into the firm) by shareholders for financing operations at a time of beginning a business. The share capital is cash that makes a firm become liquid. That is, it is from this share capital where a firm expects free cash inflows. It is from the attained cash inflows which sustain liquidity of the firm. It is by a firm being liquid where firm operations are financed leading into growth of the firm (sales growth). Growth of firm implies profit the firm earns. Deducting the profit earned called operating profit with interest and later tax gives a profit or earnings after tax. The profit after tax is a said distributable total earnings or net investment. Deducting the distributable total earnings with dividend gives retained earnings. Dividend is a return on investment received by investors/shareholders. It is by dividend being paid to shareholders, this perpetuate more investment. In other word a net investment therefore create financial leverage as well as acquisition of administration (production) assets which later gives more sales growth/operating profit or operating leverage and firm earnings.

Despite of the innovative proposal said by the model but Lintner model, but it did not stipulate on the extent to which the dividend payout decisions are affected by market risks.

Market risks is the result of change in macroeconomic financial environment caused inflation, interest rate and foreign exchange movement. Market risks tend to increase floatation costs which increases transactions cost which then distort dividend payment as by this time firm may decide to retain much of earnings for the growth of firm.

In India most of companies listed in stock exchange reveal its dividend decisions to be affected by firm targets specifically in attaining firm growth (Priya & Mohanasundari, 2016). The duality and power of Chief Executive Officer of a corporate revealed to the promoting factor for such firms' targets to be attained. It is from the philosophy of firm read high value what found to impact the same on growth of shareholders' wealth.

In Nigeria (Adeyemo, 2020) the dividend payout ratio decisions for manufacturing listed companies found to be affected by firms' targets defined through past dividends, profit after tax, total distributable earnings, leverage, turnover growth, firm size and market to book value. Paying for ordinary dividends was growth of the firms' considerate. Either the great significance was revealed over past dividend payment and after tax profit earnings (Adelegan et al., 2020). It is from a more profit read report of firm, which was assurance for the firm to operate in foreseeable future.

In Kenya, the dividend payment decision over companies listed in Nairobi stock exchange market was found to be affected by shareholders' interest (Yasin & Wepunkulu, 2019). This was a fact in which by allowing shareholders continue injecting their money in terms of shares, it ensures a firm operate in foreseeable future. This moreover found not to benefit only the investors but also regulatory entities say revenue authority .That means going concern over operations of the business ensure steady tax collections.

The theories and empirical evidences above have shown the predictors which influence the dividend payment decision. But none of the study has stipulated on why dividend payment has sometimes positive effect and in other times it affect dividend decision negatively, consistent result on firms' value. Moreover the positive effects of dividend payment on shareholders wealth to be revealed irrelevant were explicitly uncovered by the current study. From this current study it has addressed that paying for dividend is an expense or cost the firm has to incur. Incurring for dividend cost is an expense or load which leads the same on diversified outputs which increases firm value or simply growth (performance) of the firm.

Thus it is by maximizing share holder's wealth which is contrarily from the philosophy of portfolio performance of the firm what the current study has also said the same. This is again a contextual difference, the same facts what was with empirical gap, differences regarding unit of analysis and methodology between the reviewed literatures and the current study.

3. Research Method

The data set is a panel data of all six (6) mutual funds in Tanzania over the period of 2019 to 2022 (See Annex1).The data excluded listed manufacturing firms, banks, insurance and other service sectors. Financial data from 2019 to 2022 was collected through reviewing publicized reports of the investment mutual funds. Data on market prices and dividend were obtained from research department of the Dar Es Salaam stock exchange. The Dar es Salaam is the reliable source of data of the quoted mutual funds because the

mutual funds are mandatorily required to submit their financial reports to Dar Es Salaam stock exchange quarterly and bi-annually. Mutual fund annual reports are also reliable because they are statutorily required to be audited by recognized auditing firms before publications.

The variables specified in the regression model are dividend (DIV), return on assets (ROA), total assets (Firm Size), free cash flow (FCF), liquidity (LIQ), growth (GROWTH), Leverage (LEV) and market risk (PE) which are independent variables. The model specified is as shown below and table of variables and its indicators as it is shown in Table 1

$$DIV_{it} = \alpha + \beta_1 DIV_{it-1} + \beta_2 FCF_{it} + \beta_3 LIQ_{it} + \beta_4 GROWTH_{it} + \beta_5 ROA_{it} + \beta_6 LEV_{it} + \beta_7 SIZE_{it} + \beta_8 PE_{it} + \epsilon_{it}$$

Where dependent variable is current year dividend, DIV_{it} = the share of dividend in total earnings (or dividend per share/earnings per share)

DIV_{it-1} = dividend with lag

FCF= Free cash flows= share capital injected into business in commencing it LIQ= liquidity=cash received from investment/operations

GROWTH = firm sales growth

ROA= Return on assets, a measure of firm profitability

LEV= Financial leverage attained from net investment leading into increase in firm value

SIZE= firm size measured in terms of total assets owned by the firm

PE= Price per earnings ratio, a measure of magnitude of market risks (e.g. inflation, foreign exchange movement)

Table 1. Variables

Variables	Measures
Dividend payout (DIV_{it})	Dividend(DIV_{it-1}) Market share price(P) Dividend per share (DPS) Earnings per share (EPS)
Free cash flow (FCF)	Operating profit before tax Depreciation Increase or decrease current assets Increase or decrease in current liabilities 5.Interest 6.Current tax

Liquidity (LIQ)	Cash in hand Cash at bank 3.Inventory 4.Prepaid amount
Firm growth (GROWTH)	Sales Total assets 3.Profit
Returns on assets(ROA)	Profit before tax Total assets Current assets Fixed assets
Firm leverage (LEV)	Earnings per share Number of outstanding shares/units Net investment
Firm size (SIZE)	Total assets Investment assets Net asset value
Price per earnings per share (PE)-Market risks	Market share price Earnings per share Number of shares(units)

4. Findings and Discussions

Descriptive Statistics. Under this section, the study motivated at determining the description behind determinant of dividend payment decision. The descriptive tools under analysis were minimum, maximum values, mean and standard deviations. At a general maximum and minimum values of 0.07 and

40.10 respectively, the results of analysis was confined and presented in Table 2.

Table 2. Descriptive analysis results

	Minimum	Maximum	Mean	Standard deviation	Skeweness	Kurtosis
DIV _{it-1}	40.10	259.52	24.01	0.01	10.23	105.61
CFC	1.25	401.00	23.01	1.21	21.25	102.75
LIQ	1.00	167556.2	20.51	0.08	-20.64	342.65

GROWTH	0.07	14.12	22.50	0.07	19.07	231.60
ROA	1.02	165.52	24.00	0.02	2.56	201.75
SIZE	4.52	125.64	12.57	0.11	-11.75	301.25
LEV	3.24	146.01	15.97	0.37	15.72	691.42
PE	1.67	409.70	6.52	4.72	13.78	791.00
DIV _{it}	31.42	571.45	22.45	30.56	18.75	301.21

Note: DIV= past dividend payment consideration; CFC= free cash flow; LIQ= liquidity; GROWTH= sales growth; ROA= return on assets; SIZE =firm size; LEV= financial leverage; PE=price per earnings ratio

At a minimum value of 40.10, maximum value of 259.52, mean ($\bar{X}$) = 24.01 and standard deviation of 0.01 it indicates that past dividend payment consideration influence the dividend payout decision positively. This implies that payment of dividend to investors has an influence on dividend payment decisions. The greater the ratio of payout is the great probability for investors (shareholders) continuing investing to the firm. The sustainable investment leads into sustainability of the firm operation in foreseeable future, domestic, optimistic results of dividend were consistent with those of return to assets given mean value ($\bar{X}$) = 24.00 and standard deviation = 0.02.

The results over dividend and return on assets are slightly different with those with of free cash flow, liquidity, sales growth, financial leverage, and firm size. With mean ($\bar{X}$) = 23.01 and standard deviation = 1.21 for FCF; $\bar{X}$ = 20.51 and standard deviation = .008 for LIQ; $\bar{X}$ = 22.5 and standard deviation = 0.07 for sales growth of the firm; $\bar{X}$ = 15.97 and standard deviation = 0.37 for LEV; while firm size, $\bar{X}$ = 12.57 and standard deviation = 0.11 and market risk (PE), $\bar{X}$ =

6.56 and standard deviation = 4.72 indicate the variation to be indefinite, not explanatory. This is exceptional effects of occurrence of market risks on dividend payout. The abnormality in standard deviation regarding market risks shows how large cash flow distortions are associated with changes in macro-economic variables.

The significant variation (standard deviation) of dividend payment and return on assets shows significant influence, the two factors has on dividend payout decisions, the facts which are consistent with that by Pattiruhu and Paais (2020). Moreover the significant variation indicated by past dividend payment consideration in relation to dividend payout decisions was also reported by Traini and Tarmidi (2019) that by paying for dividend ensures prosperous of investors to continue investing in the firm for firm value retention and growth. Referring to returns on assets, this is the profit the firm earns from which financing of firm operation-plans both short and long term becomes certain. It is with sustainable firm earnings where survival, growth and perpetuation of firm become certain, the results which resembles as what was said by (Osazefua, 2019)

Correlation Analysis. Employment of correlation coefficients used to determine the

strength of the linear relationship between variables i.e. explanatory (independent) and explained (dependent) variables. While explanatory variables included dividend, free cash flow, liquidity, sales growth, return on assets, financial leverage, firm size and market risks, and the explained variables was a dividend payout decision. From the computation results (See Table 3) it indicates that amount of dividend to be paid positively and significantly influence dividend payout ratio. With correlation coefficient, $r=0.57$ equals to 57 percent show that for every 0.572 units of dividend paid influence 1 unit increase in dividend payout ratio. While past dividend consideration found to influence dividend payout at a significance of 1 percent, return on assets (profit) found to influence dividend payment given $r=0.742$ at a significance of 5 percent. The determination of return on assets on dividend payment indicates that increase in return on assets by 0.74 units lead into increase in dividend payment by 1 unit.

Table 3. Correlation coefficients

	DIV _{it-1}	CFC	LIQ	GROWTH	ROA	SIZE	LEV	PE	DIV _{it}
DIV _{it-1}	1								
CFC	0.572***	1							
LIQ	0.124	0.097	1						
GROWTH	0.131	0.161	0.020	1					
ROA	0.742**	0.641	0.010	0.040	1				
SIZE	0.021	0.082	0.571	0.020	0.210	1			
LEV	0.122	0.241	0.063	0.031	0.045	0.061	1		
PE	0.075	0.230	-0.452*	0.402	0.011	0.311	-0.235	1	
DIV _{it}	0.581	0.610	0.154	0.431	0.052	0.203	0.114	0.250	1

Note: *** $p<1\%$; ** $p<5\%$; * $p<10\%$; DIV= past dividend payment consideration; CFC= free cash flow; LIQ= liquidity; GROWTH= sales growth; ROA= return on assets; SIZE =firm size; LEV= financial leverage; PE=price per earnings ratio

The results over $r = 0.641$ for free cash flow; $r= 0.571$ for liquidity; $r= 0.402$ for firms' sales growth; $r= 0.241$ for leverage; $r= 0.061$ for firm size indicates that dividend payout ratio was affected positively through increase in either one of the factor but in insignificant manner. The fact is that increase in free cash flow by 57.1 percent lead into small increase in dividend payout ratio by $>10\%$. The positive free cash inflows from the business operation had an influence on the growth of firm and not over dividend payment but in return growth of the firm in-terms of sales and profitability help to attain financial adequacy which ensures certainty in payment of dividend.

The positive and insignificant relationship with free cash flow on dividend payout ratio

was also shown with liquidity since increase in liquidity is for firm performance which might not mean the same over certainty in paying for dividend (Shingade & Rastogi, 2019.). Also increase in sales growth by 0.402 units; leverage by 0.241 units and firm assets (firm size) by 0.061 units indicated a little or insignificant increase in dividend in dividend payout ratio by >0.10 unit. This is a proven fact that increase in sales growth might not mean the same on growth in dividend payment especially if mutual firm management is not efficient in appropriate use of financial resources. Moreover increase in financial leverage by 24.1 percent might not lead the same on sustainable increase in dividend payment if the firm management is not good at investment appraisal the results which are consistent with what was reported by Ibrahim and Isiaka (2020). Furthermore in significant effects of firm size on increase in dividend amount to be paid is from the philosophy that assets accumulation might not necessarily lead into increase in dividend payout especially when the firms' management is not efficient at capital budgeting.

Market risks identified by occurrence of inflation, exchange rate movement indicated to be negative and significant determinant of dividend payout given $r = -0.452$ at a significance level of 10%. It is by increase in floatation cost of inflation by 0.452 units that led into decrease in dividend payment by 1 unit. This is true because change in inflation and other macro economic variables transaction cost used in servicing the floatation/ or cash flow distortion effects.

Random and fixed effects regression. Under this experiment the study aimed at determining the strength of association and significance of association between variables given two conditions i.e. with random and stationary data. Random data assumed for a serial correlation where the results were analyzed basing on the residue or cointegration unit. Random data burrowed a concept of heteroscedastic while fixed asset was for stationery data postulating homoscedastic testing. Generally random and fixed effect regression aimed at examining the behavioral strength of the relationship in a long and short run respectively. The field computed results were shown in Table 4

Table 4. Random and fixed effect regression results

	FE	RE
DIV _{it-1}	0.571**	0.584***
FCF	0.024	0.025
LIQ	0.062	0.041
GROWTH	0.050	0.032
ROA	0.624***	0.571***
LEV	0.035	0.064
SIZE	0.036	0.021
PE	-1.162***	-1.163***

Constant	64.65***	79.91***
N	120	120
# of firms	6	
Hausman test (Prob>X ²)	0.03	
R-Squared	0.74	0.81
Note:***p<1%; **p<5%; *p<10%; FE= fixed effect; RE= random effect; DIV= past dividend payment consideration; CFC= free cash flow; LIQ= liquidity; GROWTH= sales growth; ROA= return on assets; SIZE =firm size; LEV= financial leverage; PE=price per earnings ratio		

With $R^2 = 0.74$ under fixed effect regression indicate a positive relationship that exist between each of all eight explanatory variables and dividend payout. The same positive results were with Hausman test, $\chi^2 = 0.03$. Also with $\beta = 0.571$ at a significance level of 5% under fixed effect regression and $\beta = 0.584$ at a significance of 1% indicate that by a firm being considerate on past dividend payment has a positive and significant influence on dividend pay out. Positive and significant influence was also revealed by the variable return on assets equals to $\beta = 0.624$ at $p = 0.01$ and $\beta = 0.571$ at $p = 0.01$.

Determination of the variables free cash flow, liquidity, sales growth, financial leverage and firm size on dividend payout was positive and insignificant. The insignificant influence was due point $\beta = 0.24$ under fixed effect and $\beta = 0.025$ under random effect; $\beta = 0.062$ equals to 0.041; $\beta = 0.050$ equated to 0.02; $\beta = 0.0325$ equated to 0.064; $\beta = 0.036$ equals to 0.021 for fixed and random effects regressions respectively.

Insignificant determination of the variable free cash flow is due to the fact that cash holding from issued shares by shareholders may not gives the same expected return from firm projects (Al- Fasfus, 2020). Liquidity of the firm ensures a firm become at a good position of financing short term plans or day or day operations but the fact is that inefficient use of the current assets lead into deficient return on investments sustainable dividend payment (Koziel, Hilber, Westerlund & Shayesteh, 2021).

Insignificant influence of sales growth, financial leverage and firm size on dividend payout is due to firm management proficiency (Li, Xiang & Djajadikerta, 2020). Inefficient use of inventories, common stocks and non-current assets strain income and operating gearing ratios leading into non sustainability of firm profitability. It is from profit deficiency in which paying for dividend become difficult rather firm profit retention. Decision of a firm not to pay for dividend because of little earnings from the business is the fact which is consistent with what was reported by Hussain and Akbar (2022).

With $\beta = -1.162$ equated to -1.163 at a significance level of 1%, it shows that market risks occurrence affect adequate and sustainable payment of dividend. Occurrence of market risks such as inflation, foreign exchange movement tends to pile up transaction cost (Tumwebaze, Orobias, Bananuka, Bonareri-Tirisa & Balunywa, 2022). The liquid preference resulted from inflation and other macro economic variables spite for small

expected return from investment presented by return on assets. It is from little return on assets earned which creates dissatisfaction over dividend payment.

5. Conclusion

Dividend payout decisions are managerial discussions which attract attentions of both management and owners of the firm. While firm management is interested with much profit retention for growth of the firm but owners of the firm are interested with dividend to be paid for their prosperous and firm value increase. The factors or criteria of decision of how much are to be paid as dividend and how much is to be retained. Past dividend payment consideration and return on assets were revealed to be positive and significant influencers of the decisions, free cash flow, liquidity, firm growth, financial leverage, firm size found to be positive but insignificant influencers of the dividend payment decisions. Either market risks were revealed to be negative and significant influencing factor of dividend payout decisions. It is from these results, in which the following are recommended: - mutual funds portfolio management to put much focuses on past dividend payment and return on assets in sustaining dividend payments. Moreover managerial effort should also go in ensuring sustainability of free cash flow, liquidity, sales growth, financial leverage and firm size (total assets). Apart from incrementing firm earnings called distributable total earnings for sustaining firm growth and value, having dividend payment discussions should be made to anvil out the distortions brought by occurrence of market risks.

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