

THE EFFECT OF ECONOMIC OPENNESS ON FIRMS DIVIDEND POLICY IN NIGERIA

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ABSTRACT

The study examined the effects of economic openness on firm's dividend policy in Nigeria. Data employed for the analysis between 1987-2016 were generated from the statistical bulletin of CBN and NBS reports for different years. The specific objectives of the study are to: determine the effect of exportation on Economic development; examine the effect of foreign direct investment on Bank's Dividend; to assess the effect of importation on Bank's Dividend; and assess the effect of market capitalization on economic development. The data were then analyzed using Ordinary Least square method and software called Eviews was use to carry out the analysis. The major findings from the study are; Foreign Direct investment has a significant impact on banks' dividend, Trade openness impacts significantly on economic growth, Free trade may speed up development rates in the long run by creating economies of scale, operating through research and development (R&D). It was further recommended that Government should encourage economic openness by facilitating trade promotion agencies and also encouraging financial sector development with care.

Keywords: Dividend, Economic Openness, Liquidity. Trade Policy.

INTRODUCTION

Openness to trade and capital not only restricts the prevailing' ability to object to financial development, but also creates incentives for them to uphold and encourage financial development. Zingales and Rajan(2012) investigated that financial development openness theory implies integrating a country in world commodities (i.e., trade openness) and capital markets (i.e., financial openness) can enhance its financial development. Financial development in developing countries eases the entrance of new firms into the industry which ultimately results in competition as such it is opposed by well-known prevailing industrial and financial interest groups because it wears away their monopolistic rents. Trade and financial openness introduce foreign competition and limit the power of prevailing groups who object to financial development. More contentious issues have been constituted by the general perspective that trade openness is essential and has positive impacts on development and performance growth of the industrial sector including the banking industry.

According to Adenikinju & Olofin (2012), trade policy might influence industrial growth through various channels. First, a regime that adopts less trade protection policy create expansion of the local market that enhances scale efficiency which contrarily might be too small for the efficient production of goods that indicate increasing returns to scale. Second, a regime that adopts the more liberal trade policy will attract competition from other countries, which

will compel local firms to adopt modern technology to reduce waste and enhance efficiency. Third, it is opined that a freer economy alleviate foreign exchange difficulties experience by most developing nations thereby creating an enabling environment for the importation of impute materials and capital goods needed for production. Finally, a more open economy fosters technological progress and this has been the focal point of the internal growth. These works reveal how free trade may enhance growth rates in the long run by generating economies of scale, operating through research and development (R&D) and knowledge spillover, human capital accumulation and/or learning by doing.

Two different trade regimes had been encountered in Nigeria; controlled and open trade.

The controlled trade entails a regime of regulation that possesses both the direct and indirect control device in the conduct of trade and payments with other countries. The primary reasons for control regime are for efficiency, stability and firmness achievement in the light of market failure, as the terms for equilibrium in competition is unsatisfied, Olomola (2014). The open trade regime proponents opine that openness stimulates prosperity and the standard of living of the countries involved.

However, over the last three decades, there has been colossal and irresistible foreign trade and the cross-border movement of technology, labour and capital as the situation may be in Nigeria.

Recently, the adverse influence which the unstable capital market of the advanced countries vigorously placed on the less developed countries has led to contrary view which upholds the unfavorable aspects of openness and questions are being posed if developing countries are actually benefiting from economics openness.

LITERATURES REVIEW

Obaseki (2015) examined globalization as international relationships entails trade in goods and services and financial intermediation adopting the integration of goods and services markets and financial markets across national boundaries. Peter and Olivier (2016), effect of diversification and trade on development in Nigeria was examined. Based on their findings, it was revealed that in 2004, the GDP share of exports plus imports of goods and services equivalent to 86 percent in Nigeria. It was discovered recently that Nigeria has enjoyed a fairly large surplus of current account, which according to Central Bank statistics summed up to more than 20 percent of GDP in 2004. The study inferred that trade policy effect on productivity and investment is extremely important, and more openness is generally connected with higher productivity, larger investment, and stronger growth.

Chimeze (2012) examined the impact of foreign direct investment on corporate performance of emergent market firms. Fixed effects panel model estimation method was adopted by the study. Findings from the study reveals that foreign direct investment positively influences return on assets and equity, equally it is positively associated with market-to-book value ratio. Dividend payout is also positively associated with return on assets and equity.

Georgios (2013) investigated the impact of trade openness on growth of 56 countries between 1951–1998 and 105 countries between 1960 – 1997, using two panel data set: one of the findings reveals significant positive impact of trade openness on economic growth and the impact is permanent and economically sizable. Under developed countries derive a lot of

benefits from trade openness than developed ones due to the transferability of technology from advanced to developing countries.

Wong Hock (2015) examined the influence of trade openness and financial development on dividend policy in Malaysia. An error correction model was adopted, which revealed that trade openness has a significant effect on Dividend.

The reviewed literature shows evidence of direct and indirect impact which foreign direct investment has on banks dividend policy. Foreign Direct investment influences positively dividend policy and developing countries derive a lot of benefits from increased openness than developed ones due to the transferability of technology from advanced to developing countries.

Ujunwa(2010) examined that institutional and regulatory reform, adequate disclosure and listing requirements and fair trading practices is associated with Foreign investment . The establishment of informational and operational efficiency is expected to inspire greater confidence in domestic markets. This increases the investor's base and participation and leads to more capital flows into the stock market. Kingsley(2011) investigated the impact of openness on Nigeria's long-run growth using the cointegration approach. They tested for the number of cointegrating relationship between LRGDP and LOPEN. They concluded that there is no significant relationship between openness and economic growth, and that unbridled openness could have deleterious implications for growth of local industries, the real sector (goods and services sector) and government revenue

Olotu and Kaine (2011) show empirically that globalization does not positively affect demand for labour. Also the impact of the ratio of total trade to non-oil GDP on aggregate employment was negative.

METHODOLOGY

The purpose of this write up is to highlight the procedural matters surrounding this research work. Hence, this chapter will consist of Research design, method of data analysis, model specification, model justification, discussion of variables, and nature/sources of data.

Research design means the structuring of investigation which is designed at identifying variables and theory relationships to one another effectively and efficiently. It refers to the overall strategy that you choose to integrate the different components of the study in a coherent and logical way, thereby, ensuring you will effectively address the research problem; it constitutes the blue print for the collection, measurement and analysis of data. (De vaus, 2001). The research design used for this study is the exploratory design because of its peculiar nature of collecting data from a defined source.

Secondary data collected from CBN statistical bulletin and Nigeria Bureau of Statistics (NBS) was adopted by the study.

The models specified for this study is as stated below:

$$GDP_{GR} = \alpha_0 + \beta_1 (IMPR) + \beta_2 (MCAP) + \beta_3 (EXC) + \beta_4 (EXR) + \mu$$

$$DIV = \alpha_0 + \beta_1 (IMPR) + \beta_2 (MCAP) + \beta_3 (EXC) + \beta_4 (EXR) + \beta_4 (FDI) + \mu$$

WHERE:

GDP – Gross domestic product

DIV – Banks Dividend

IMP – Import

EXPR- Export
 EXC- Exchange rate
 MCR – Stock market capitalization
 FDI – Foreign direct investment
 α_0 – Slope
 $\beta_1, \beta_2, \beta_3$ – Parameters
 μ - Interscept

DATA ANALYSIS

Table 4.2: Frequency of Data

	GDP	IMP	MCAP	EXC	EXPR	DIV	FDI
Mean	45869.77	2468.667	4961.007	92.58967	5565.767	192.5710	3478433.
Median	28491.53	969.5000	713.7000	114.8900	2456.000	8.800000	3094180.
Maximum	195345.0	9893.000	19077.42	253.4900	22444.00	1492.900	8024349.
Minimum	3918.350	16.00000	8.200000	15.25000	30.00000	0.150000	299566.0
Std. Dev.	48574.84	2869.330	6543.428	68.19225	6506.268	364.1967	2378116.
Skewness	1.865866	0.981235	0.970064	0.205641	1.107643	2.482690	0.378407
Kurtosis	6.101734	2.724897	2.355694	2.057760	3.158031	8.618365	1.930302
Jarque-Bera	29.43322	4.908714	5.224030	1.321210	6.165578	70.27629	1.430850
Probability	0.000000	0.085918	0.073387	0.516539	0.045831	0.000000	0.488984
Sum	1376093.	74060.00	148830.2	2777.690	166973.0	5777.130	69568654
Sum Sq. Dev.	6.84E+10	2.39E+08	1.24E+09	134855.3	1.23E+09	3846537.	1.07E+14
Observations	30	30	30	30	30	30	30

Source:

Eviews

The above table displays the descriptive statistics for the data as observed for the time period examined from 1987-2016. Total Dividends (DIV) has a mean value of 192.5710 and standard deviation of 364.1967. The largest and smallest values of DIV for the period were 1492.900 and 0.150000 respectively. It has Jarque-Bera statistic value of 70.27629 and p-value of 0.0000.

Gross Domestic Product (GDP) has a mean value of ₦45869.77 and standard deviation of ₦48574.84. The largest and smallest values of GDP for the period were ₦195345.0 and ₦3918.350 respectively and Jarque-Bera statistic value of 29.43322 and p value of 0.00000. The p-value ($p < 0.05$) of DIV and GDP confirms the non-normality of the data. It also shows the presence of outliers in the data.

Foreign Direct Investment has a mean value of ₦ 3478433 and standard deviation of ₦ 2378116. The largest and smallest values of FDI for the period were ₦8024349 and ₦ 299566.0 respectively. It has Jarque-Bera statistic value of 1.430850 and p-value of 0.488984.

Export (EXPT) has a mean value of ₦ 5565.767 and standard deviation of ₦ 6506.268. The largest and smallest values of EXPT for the period were ₦22444.00 and ₦ 30.0000 respectively. It has Jarque-Bera statistic value of 6.165578 and p-value of 0.45831.

Exchange rate (EXR) has a mean value of 92.58967% and standard deviation of 68.19225%. The largest and smallest values of EXR for the period were 253.4900% and 15.25% respectively. It has Jarque-Bera statistic value of 1.321210 and p-value of 0.51653.

Market Capitalizations (MCAP) has a mean value of ₦ 4961.007 and standard deviation of ₦ 6543.428. The largest and smallest values of MCAP for the period were ₦19077.40 and ₦ 8.20000 respectively. It has Jarque-Bera statistic value of 5.224030 and p-value of 0.073387.

Import (IMPT) has a mean value of ₦ 2468.667 and standard deviation of ₦ 2869.330. The largest and smallest values of IMPT for the period were ₦9893.000 and ₦ 16.0000 respectively. It has Jarque-Bera statistic value of 4.908714 and p-value of 0.085918.

The p-value ($p > 0.05$) of FDI, EXPT, EXR, MCAP and IMPT confirms the normality of the data. It also indicates the absence of outliers in the data.

Table 4.3: Unit root test.

Variables (intercept)	Probability	Remark:	ADF	Critical Value
EXR	0.0272	I(1)	-3.254914	-2.971853
GDP	0.0448	I(1)	-3.059614	-3.004861
IMPT	0.0292	I(0)	-3.250776	-2.991878
MCAP	0.0002	I(1)	-5.227335	-2.991878
EXPT	0.0358	I(0)	-3.161488	-2.998064
DIV	1.0000	I(0)	-7.524885	-3.004861
FDI	0.0019	I(1)	-5.460209	0.0019

Source: Eviews

The time series data properties for the study period between 1987-2016 was examined for its stationarity to be tested adopting the Augmented Dickey-Fuller (ADF) test statistics. The relevance of the time series' stationarity employed in regression leans on the reality that a non-stationary time series is impossible to generalize to other time periods aside from the present making forecasting derived from such time series to be of little practical value.

Also, non-stationary time series regression on other non-stationary time series may generate a false regression (Gujarati, 1995). The hypothesis tested was;

H₀: It is non-stationary i.e. it has a unit root

H₁: It is stationary i.e. it has no unit root

Decision rule: taking the absolute value of both the ADF test statistic and the critical value, the null hypothesis of non-stationarity should be rejected if the ADF test statistic is greater than the critical value and also if the p-value is < 0.05 , the null hypothesis should be rejected and conclude that it is stationary.

The unit root results indicating the sequence of integration of each variable as displayed in table 4.3, suggested that unit root null hypothesis can be rejected at first difference for MCAP, EXPT, DIV, FDI and IMPT; and 2nd difference for GDP and EXR; the variables are integrated of order 1 i.e.(1) indicating that all the series are stationary and their null hypothesis of non-stationarity is turned down and hence their regression will not be useless. They are all stationary at 0.05 critical values and are not stationary at the same difference, so we run Ordinary least Square.

Table 4.4 Least Square (model one)

Dependent Variable: GDP
Method: Least Squares

Date: 06/04/18 Time: 00:19
 Sample: 1987 2016
 Included observations: 30

Variable	Coefficient	Std. Error	t-Statistic	Prob.
IMPR	4.516003	10.41347	0.433670	0.6682
MCAP	4.657318	3.282848	1.418682	0.1683
EXC	-298.4147	225.7891	-1.321652	0.1983
EXPT	0.401068	3.424265	-0.514939	0.6111
C	-10647.83	15483.44	3.168575	0.0040
R-squared	0.938888	Mean dependent var		45869.77
Adjusted R-squared	0.054188	S.D. dependent var		48574.84
S.E. of regression	47240.41	Akaike info criterion		24.51490
Sum squared resid	5.58E+10	Schwarz criterion		24.74843
Log likelihood	-362.7235	Hannan-Quinn criter.		24.58961
F-statistic	1.415374	Durbin-Watson stat		1.286746
Prob(F-statistic)	0.000000			

Source: Eviews

Table 4.5 Least square (Model Two)

Dependent Variable: DIV
 Method: Least Squares
 Date: 06/04/18 Time: 00:28
 Sample: 1987 2016
 Included observations: 30

Variable	Coefficient	Std. Error	t-Statistic	Prob.
IMPR	0.082558	0.046048	1.792876	0.0851
MCAP	0.028593	0.014517	1.969690	0.0600
EXC	2.398706	0.998433	2.402472	0.0240
EXPT	-0.048847	0.015142	-3.225917	0.0035
FDI(1)	3.30E-05	2.50E-05	1.316351	0.2126
C	-103.3151	68.46730	-1.508970	0.1438
R-squared	0.716385	Mean dependent var		192.5710
Adjusted R-squared	0.671007	S.D. dependent var		364.1967
S.E. of regression	208.8956	Akaike info criterion		13.67256
Sum squared resid	1090935.	Schwarz criterion		13.90609
Log likelihood	-200.0884	Hannan-Quinn criter.		13.74727
F-statistic	15.78694	Durbin-Watson stat		1.252220
Prob(F-statistic)	0.000001			

Source: Eviews

Table 4.6 Multicollinearity Test (model one)

Variance Inflation Factors
 Date: 06/04/18 Time: 00:29
 Sample: 1987 2016
 Included observations: 28

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
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C	52049.04	36.19778	NA
EXPT(1)	0.000203	16.35385	5.791295
EXR(2)	3.353650	50.30269	2.957287
FDI(1)	6.27E-10	8.226359	2.366975
IMPR(1)	0.001530	22.76218	8.291443
MCAP(1)	0.000157	10.42755	4.580024

Source: Eviews

Tables 4.6 show the Variance Inflation Factors (VIF) for the variables which measures the level of collinearity between the regressors in an equation. The VIF test reveals how many variance of a coefficient estimate of a regressor has been inflated due to collinearity with other regressors. Basically, VIFs above 5 indicate the presence of collinearity. Therefore, VIFs below 5 are desirable. VIFs of most of the variables in both models are below 5 and therefore show the absence of collinearity among the variables.

Table 4.7a Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	2.756906	Prob. F(4,13)	0.0735
Obs*R-squared	8.261209	Prob. Chi-Square(4)	0.0825
Scaled explained SS	9.554766	Prob. Chi-Square(4)	0.0586

Table 4.7b Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	0.508608	Prob. F(5,12)	0.7648
Obs*R-squared	3.147536	Prob. Chi-Square(5)	0.6773
Scaled explained SS	0.696529	Prob. Chi-Square(5)	0.9832

Source: Eviews

Tables 4.7a and 4.7b show the Breusch-Pagan-Godfrey test for heteroskedasticity for the two models. It tests the null hypothesis of no heteroskedasticity (homoskedasticity). Our aim is to accept the null hypothesis of homoskedasticity. A p-value > 0.05 means the null hypothesis cannot be rejected i.e. we have reason to believe the residual is homoskedastic as desired. The test for model one revealed that the p-value of 0.0586 > 0.05 of critical value. While the test for model two revealed that p-value of 0.8265 > 0.05 which implies no evidence of heteroskedasticity presence (no constant variance) since the p-value of the f-statistics, observed R-squared and the scaled explained sum of squares are considerably greater than 0.05. This implies that the residual has a constant variance i.e. homoskedastic.

Table 4.8: Summary of Apriori expectations. (model one)

Independent Variables	Expected Signs	Observed Signs	Remarks
EXPT	+	+	Conforms
IMPT	+	+	Conforms
MCAP	+	-	Conforms
EXR	-	+	Negates

Source: Eviews

Table 4.9: Summary of Apriori expectations. (model two)

Independent Variable	Expected Sign	Observed Sign	Remarks
EXPT	+	-	Negates
IMPT	+	+	Conforms
MCAP	+	+	Conforms
EXR	-	-	Conforms
FDI	+	+	Conforms

Source: Eviews

CONCLUSION & RECOMMENDATION

A conducive and healthy business environment is sacrosanct to achieve the maximum benefits from foreign trade which stimulates local and foreign investment, thereby making incentives available for innovation and skills advancement and impart on competitive corporate climate. There is no automatic rise in the net benefits from Trade openness and their significance distinct depending on host country and condition. The factors that constraint the full benefits of technological, educational and infrastructure achievement in a developing country does, ceteris paribus, equip it better to benefit from a foreign presence in its markets. Trade openness in some developing countries include the level of general education, health and technology of host-country enterprises, while insufficient openness to trade results in weak competition and inadequate regulatory frameworks.

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