DOMINANCE OF FINANCE OVER COMMODITY INDUSTRY AND DIVIDEND OF LISTED NIGERIAN MANUFACTURING FIRMS

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Abstract:

The financial sector is supposed to be the vehicle for economic growth and development with a special role to the real sector. However, the active force of finance dominance over commodity industry appears inimical to such critical role by circumventing output through money to money value chain. The objective of this study therefore is to assess the impact of financialization on the dividend per share of listed manufacturing firms in Nigeria. The study adopted the use of descriptive and historical research design. Data was collected from the secondary source and was analysed using the techniques of simple linear regression. It was found that the dominance has significant impact on dividend per share of listed manufacturing firms in Nigeria. It is therefore recommended that firms should be given the opportunity by policy makers to invest well in the financial market but only for a short period of time and retain the earnings from financial investment to fund real investment in the long run.

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Introduction:

The financial sector is supposed to be the catalyst of economic growth and development with a special role to the real sector. However, the active force of finance dominance over commodity industry refers to as financialization appears unfavorable to such vital role; by circumventing output growth through money to money value chain. Financialisation entails a shift from the general formula for capital accumulation, money-commodity-money (M-C-M), in which commodities are central to the generation of profits, to one increasingly geared to the circuit of money capital alone, M-M', in which money simply begets more money with no relation to entrepreneual production (D'Mello, 2009).

There is strong evidence to show that the relationship between manufacturing sectors and financial sectors has become deeper and more complex. For example, Epstien (2006), show that manufacturing corporations in the United States have been increasingly involved in investment in financial assets and financial subsidiaries and have derived an increasing share of their income from them. Managers and investors in the manufacturing sector now invest the better part of their profit in the financial market for its dividends instead of expanding productive capacity.

According to Moghalu (2009), the phenomenon of financialization, an aspect of capitalism which is the real cause of the present global crisis, has also crept into Africa through some of the continent's open economies, especially those of Nigeria and Kenya. Moghalu (2009) contends that the directors of Nigerian banks who, instead of financing the real sectors of the economy at affordable interest rates, invest in financing speculation in the country's stock market and are now holding penny stocks to show for it. With the current vision to join the top twenty industrialized countries in the world by 2020, there is need to review the condition of the real sector and especially a very important segment of the real sector, the manufacturing sector of -Nigeria vis-à-vis this new global investment trend. It is speculated that if financialization intensifies, it could aggravate the already poor conditions of African manufacturing sector, Nigeria inclusive. There is already evidence that the Nigerian manufacturing sector is undergoing de-investment by selling some of their plants, machinery and equipments and using the proceeds to buy bank stocks to show up profits (Bussinessday, 2007).

With financialization taking root globally, the accumulation strategy can bring about severe economic crises by truncating the growth of the real sectors when effective transfer of investments from manufacturing to the financial sector subsists. From developed economies, there are evidences of shift from large corporation financing to financialization (Foster, 2008). This has also been observed by Businessday (2007), where it states that manufacturing firms in Nigeria are buying more of banking stocks to show up profits (Bussinessday, 2007).

This situation may create profit, yes, but it doesn't create new value. Only producing in manufacturing, agricultural, and services create new value. Since profit is not based on value that is created, investment in financial sector operations become very volatile and the prices of stocks, bonds, and other forms of investment can depart very radically from their real value (Bello, 2010).

This study is an empirical and a unique work because there is paucity of empirical studies on financialization in Nigeria. It is important therefore to investigate how far the new phenomenon affected the already underdeveloped manufacturing sector of the Nigerian economy. The paper examines impact of financialization on the dividend per share of listed manufacturing firms in Nigeria. In view of this, it is therefore posited that financialization has no significant impact on dividend per share of listed manufacturing firms in Nigeria.

Literature Review:

Changes in the behavior of nonfinancial corporations (NFC) can be seen as explained by Orhangazi (2007), that NFC's total financial payments in form of dividend payments to shareholders have been increasing. They (NFCs) are increasingly taking part in investing in financial assets and give out higher amounts of payments to financial markets. Another facet of financialization observes Power, Epstein, and Abrena, (2003) and Wolff (2004) is that in recent years the relatively high profits had to be shared with more investors taking their cut from the pie. They thus maintained that there is a gradual reduction of the share of profits kept for expanding productive capacity and a concomitant rise in the share of profits paid out as dividends to shareholders.

La porter, Lopez, Shleifer and Vishy (2000) argue that shareholders greater interest for dividend will depend on the quality of safety given to them by a country's legal system. Where shareholders are well protected, a low dividend payment would be accepted from high growth firms (firms that are still growing) and a high dividend payment from low growth firms (matured firms). In contrast, if shareholders' safety is not guaranteed, such a relationship between growths and dividend payments would not be expected since shareholders may try to immediately get what they can however little.

Adedeji (2009), postulates that the burden imposed on African economies by financialization is even more devastating because of the distorted macro-economic environment prevailing in Africa which encourages trading in money as opposed to lending for transformation and increased production in manufacturing and agriculture, and promoting infrastructural development. Africa, as the most exposed and the most vulnerable region in the world cannot escape the apocalyptic consequences of financialization. He believes that at the macro level, because of instabilities and distorted incentives, financialization can undermine the overall growth and development of the economy so that in the end, the real opportunities for investors and workers—except, perhaps for the very wealthiest members of society—are diminished.

Everywhere in Africa where financial deregulation has taken place, there has been a massive decline - in numbers and relevance of productivity-oriented entrepreneurs, enterprises and workers. Until the international community in general and Africa in particular ceases to make development hostage to finance and instead make finance to serve development, the current financial crises, will become even more devastating in Africa. Adedeji has concluded that financialization has exerted negative effects on the Nigerian economy.

Magaji (2009) finds that even the real cause of the Nigerian stock market crisis is the financialization of the Nigerian economy and activities. This process has resulted in unethical and exploitative behaviors of the major financial actors in the capital market through financial manipulation and financial engineering, such as staged dealing and media trading.

Investors in the real sector now invest a significantly lower amount of their profits for increasing productive capacity and instead, invest the better portion of it in the financial market for its dividends. High profit margin recorded in firms is one of the main reasons motivating people to invest in those firms and in the bulk of private sector projects, profitability is the main criterion of economic efficiency (Ahmad, 2000).

Financial markets today directly compensate companies for reducing payroll through closures, restructuring and outsourcing by increasing their dividends to very high and exorbitant rates. Thus, industries spin off important parts of their operation and rotate it through endless rounds of investment portfolios in the financial markets. This reflects the way in which financialization has motivated the management of manufacturing companies to "act more like financial market players" (Foster, 2008).

A channel through which financialization could undermine real investment is by means of pressure on Non Financial Corporations to increase payments to financial markets in the form of dividends and stock buybacks by the firm. A counter argument might be that if the shift in investment spending from real to financial assets is only in the short-run, this can add to the firm's funds in the long-run, and hence could potentially have a positive long-run impact on investment (Orhangazi, 2007).

Interestingly these days, with global finance, Toporwiski (2008) declares that shares in financial market are held not just for the sake of their dividend income, which is paid by the company, but also for capital gains, which are not paid by the company but by other buyers in the market for the shares. As a result of the excess demand for shares, corporations have issued capital in excess of what they need to finance their commercial and industrial operations. In the past the over-capitalisation of companies might have been avoided because it would have involved the 'watering down' of profits (sharing a given amount of profits among more shareholders), or loss of control by the directors of a company who could no longer control the majority of shares at a company general meeting.

The firm investment behavioral theory explain the investment behavior of firms. This theory recognizes that business intend to profit from their investments. Yet under uncertainty, future profits cannot be known. So expectations about future conditions are in large part formed on the basis of performance. The recent study of Orhangazi (2007) paved way for using the firm investment behavioral theory as the theory underpinning the findings of this study.

Orhangazi (2007) makes use of a firm-level database (using financial payouts-dividends and financial profits) to test the relationship between financialization and the real sector of the U.S economy for the first time. He notes that previous attempts to assess financialization have been limited to aggregate data analyses, which may have prevented the identification of cross-firm differences. He believes that firm-level data permits the analysis of the effects and extent of financialization on firms of different sizes and in different sectors/industries. Just as importantly, he concludes that firm-level data makes it possible to analyze the characteristics of large firms, which are most likely to be affected by financialization.

Methodology and Model Specification:

The population of the study is the thirty nine listed manufacturing firms in the Nigerian stock exchange. Therefore, the selection concentrates only on the listed manufacturing firms. The ten most active manufacturing firms as at 2008 in the list of the NSE have been selected as the sample for five years covering 2004-2008. For the purpose of this study, the correlation design is adopted while data used in the study was obtained from secondary source only. Simple linear regression is used as the tool of analysis in this research.

The model in this study examines the relationship between financialization and dividend per share as the explanatory variable. The following model was formulated to test the hypothesis of the study:

$$Y_1 = \alpha + \beta_1 x + e$$

Where: X =Financialization, Y_1= Dividend per share, α = Constant, β_1 = Coefficient of independent variable, e = Term error

Results and Discussion:

This section deals with the presentation, analysis and interpretation of the data collected for the purpose of testing empirically, the model of the study. The following table presents results of simple regression computed using SPSS package.

TABLE 1 REGRESSION RESULTS

Variables	Coefficients and t-values
Intercept	2177.504 (1.998)*
Financialization	-86.867 (-1.761)*
R	0.251
R^2	0.063
Adj. R^2	0.043
f-statistics	3.100*
Durbin Watson	1.211

Source: SPSS Printout of Simple Regression computed

t-statistics are reported in parentheses and the symbols ***, **, *indicate statistical significance at the 1,5 and 10 percent levels, respectively.

The null hypothesis that financialization has no significant impact on dividend per share of listed manufacturing firms in Nigeria was formulated in order to ascertain the direction and extent if any of financialization on dividend per share of listed manufacturing firms in Nigeria. The hypothesis is tested and the regression result in table above reveals a correlation of 25% percent between financialization and dividend per share. This shows that between pair of financialization and dividend per share, there is a relationship. Also, it corroborates the result of the regression model that financialization is playing a role in measuring dividend per share and the nature of the correlation coefficient explains the model in the regression $y_1 = \partial + \beta$ x.

The result of the model reveals that every ₦ 1 naira increase in financialization brings about ₦-86.87k decrease in dividend per share. This implies that the more the firms are engaging in financialization, the more their dividends per share reduce. The coefficient of determination (R^2) shows that financialization occupies only 6% of the value of dividend per share which is very small but still positive. The Durbin Watson of 1.211 reveals absence of serial correlation. However, the calculated significant values of dividend per share of 0.085 is less than 10% (P>0.10). This produced the evidence of failure to accept the null hypothesis that financialization has no significant impact on dividend per share of listed manufacturing firms in Nigeria at 10%.

The result of the model reveals that for every ₦ 1 naira increase in financialization brings about ₦-86.87k decrease in dividend per share. This implies that the more the firms are engaging in financialization, the more their dividend per share reduces. This lends support to the findings of Fodio (2009), which concludes that the relationship between (financial) investment and dividend could be negative implying that an increase in dividend payment will result in decrease in investment and vise versa. This assumption is also supported by the works of Whited (1992), and Vogt (1994). This study believes that all this assumptions will apply here in the short run. When the actual monetary value of the company's shares in the financial market is realized after capital appreciation in the long run, the returns may be ploughed back into the companies to boost profitability which will consequently improve EPS and subsequently, DPS will also be better.

Conclusion and Recommendation:

The study hypothesized that there is a significant impact between the explanatory variable and financialization. It is therefore recommended that: a total shift by manufacturing firms towards financial markets will not be in the interest of our country's economy since it does not support productive investment. But given that the firms are making good earnings by investing in the financial market, which may improve their profitability, and hence boost dividends the firms should be given the opportunity by policy makers to invest well in the financial market only if they can harness real investment with financial investment.

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