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Examination of Determinants of Retention Policies Among Non-Financial Firms in Nigeria.

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ABSTRACT

The study evaluates the co-integration, magnitude and strength of the relationships between corporate relations as provided by retained earnings and some key financial indicators, in the Nigerian manufacturing industry using the food and beverages sub-sector as a focal point. The study applied ex-post facto research design which made use of secondary data obtained from annual reports and accounts of five firms in the industry, namely, 7up Nigeria Plc, Cadbury Nigeria Plc, nestle Nigeria plc, Northern Nigeria flour mills plc and flour mills of Nigeria plc. The magnitude of association of the variables was validated using correlation and regression. Log of retained earnings, profit after tax, and total assets were used while earning per share and dividend per share were not logged. Results indicate that a strong relationship (about 86%) exist between retained earnings and profit after tax, and 60% is found between earning per share and retained earnings. Also long run relationship exists between retained earnings and dividend per share and total assets. This implies that if the retained earnings are properly invested, the returns will project growth, development and expansion of the firms, while the financial indicators will serve as determinants to the retentions and investment which can guarantee good bottom line without incurring the opportunity cost of excess liquidity.

Keywords: corporate retention, food and beverages industry, EPS, DPS and Profit after tax.

INTRODUCTION

Reserves are made by companies mainly for investment into areas that promise some growth opportunities, which includes the acquisition of plant and machineries, establishment of new production lines, diversification of products and business establishment of new branch offices, acquisition of a company to widen its distribution base [1].

Retention policies and their determinants provide insight on manufacturing firms particularly in food and beverages industry as a sub-sector, hence, management looks at different reserves share based payment reserves, retained earnings contingency reserves, asset revaluation reserves and fair value reserves. The management of the firm will have a corporate policy on how the reserves should be apportioned [2].

According to [3] managers of cash-rich firms utilize the benefits of having cash on hand as a reserve to fund large capital investments and expenditures resulting from less internal financing costs. The intention to fulfill the expectations of investors and financial markets increasingly dominates reserves accumulation motives which as Shayne (2013) declares, is the cornerstone of financial flexibility.

Generally, [4] submits that reserves provide cushions to deal with operating deficits that may arise because of unexpected events, economic uncertainties or lean funding periods. In terms of policy decisions, [5] submits that retained earnings also matter for the transmission of monetary policies because they affect the overall balance between different uses of funds in an organization.

[6, 7] argued that firms do not seek to maintain a particular leverage but because of adverse selection costs, firms prefer internal financing (retained earnings and other retentions) and prefer debt to equity when raising external financing. They argued that although retained earnings are a key item in shareholders equity, existing finance literature has paid little attention to the variable. The study by [8, 9] only examined the event to which dividend is determined by retained earnings.

Statement of the problem

Corporate financing through retained earnings is one main source of internal financing because of its low risk [10, 11]. [12] opine that funds sourced from loans required collateral and accumulate interest that may lead to liquidation in the event of default.

Lack of good and sound retention policy makes firms find it difficult to fund some of their projects and even replace certain assets due to scarcity of fund. Retention policy therefore helps firms to avoid facing lack of fund. Even though emphasis has been placed on retained earnings as a formidable source of corporate financing not much has been done with regards to effect of retention policies of corporations hence the need to carry out an examination of determinants of retention policies among non-financial firms in Nigeria.

OBJECTIVES OF THE STUDY

The main objective of the study is to examine the determinants of retention policies, in the food and beverages industry in Nigeria, whereas the specific objectives are:-

(a) To ascertain the relationship between earnings per share (EPS) and corporate retained earnings in the food and beverage industry.

(b) To evaluate the relationship between dividend per share (DPS) and corporate retained earnings in the food and beverage industry.
(c) To examine the level of association between firm size (Total Assets) and Corporate retained earnings in the food and beverage industry.
(d) To investigate if profit after tax (PAT) has any relationship with corporate retained earnings in the food and beverage industry.

RESEARCH QUESTIONS

(a) What is the extent of the relationship between earnings per share and corporate reserves in terms of retained earnings in food and beverage industry?
(b) What is the extent of association between dividend per share and cooperate reserves/retentions in terms of retained earnings in food and beverage industry?
(c) To what extent is Total Assets (firm size) related to corporate reserves in food and beverage industry?
(d) To what extent is profit after tax (PAT) related to corporate retention/reserve in food and beverage industry?

STATEMENT OF THE HYPOTHESES

(i) Ho: There is no significant relationship between earning per share and corporate retained earnings in the food and beverage industry.
(ii) Ho:: There is no significant relationship between dividend per share and corporate retained earnings in the food and beverage industry.
(iii) Ho: Firm size (Total Assets) is not significantly associated with corporate retained earnings in the food and beverage industry.
(iv) Ho: There is no significant relationship between profit after tax (PAT) and corporate retained earnings in the food and beverage industry.

CONCEPTUAL REVIEW:
CONCEPT OF EARNING PER SHARE

Earning per share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock. Earnings in share serve as an indicator of a company's profitability. When a company shows signs that it has the capacity and potentials of earnings especially in the long run, Investors are most likely to be attracted to such company which could lead to an interest in its share prices (Paul and Eugene, 1992).

$$EP = \frac{Net\ income\ - preferred\ \ stock\ \ dividend}{Average\ \ shares\ of\ \ common\ \ stock\ \ outstanding}.$$

CONCEPT OF DIVIDEND PER SHARE (DPS)

Divided per share (DPS) is the sum of declared dividends issue by a company for every ordinary share outstanding. It is also the total dividends paid out by a business including interim dividends, divided by the number of outstanding ordinary shares issued DPS can be calculated by using the formula.

$$DPS = \frac{D}{S}$$

Where

D = Sum of dividends over a period.

D = Shares outstanding for the period

Increasing DPS is a great way for a company to signal strong performance to its shareholders [13].

CONCEPT OF TOTAL ASSETS

Total Assets is the sum of current and long-term assets owned by a person, company, or other entity. It is also, the final amount of all gross investments, cash and equipments, receivables, and other assets as they are presented on the balance sheet. The investors review the company's total assets before determining, whether or not the business has enough existing value to make an investment. Total Asset is also referred as firm size [14].

CONCEPT OF PROFIT AFTER TAX (PAT)

Profit After, Tax (PAT) is the net profit earned by the company after deducting all expenses like interest, taxation etc. PAT can also be seen as the earning of a business after all income taxes have been deducted. Shareholder looks after profit after tax closely because it shows how good a company is at converting revenue into profits. When a company's profit after tax is declining over time, a myriad of problems could be to blame, ranging from decreasing sales to poor customer relationship experience, to inadequate expense management [15].

CONCEPT OF RETAINED EARNINGS

Retained earnings refer to the portion of net earnings not paid out as dividends, but retained by the company to be reinvested in its core business, or to pay debt. Generally, retaining earnings is a corporation's cumulative earnings since the corporation was formed minus the dividends it has declared since it began. In other words, retained earnings represent the cooperating cumulative earnings that have not been distributed to its stockholders. A negative amount of retained earnings is reported as deficit or accumulated deficit. The balance in retained earnings is part of the stockholders claim on the total assets of the corporation [16].

THEORETICAL REVIEW

The study is anchored on the pecking order theory.

PECKING ORDER THEORY

Pecking order theory according to [17] argued that firms prefer internal funds first, debt second and external equity last. Also that funding needs and internal funds jointly determine capital structure decisions. The model states that firm's capital structure choices follow a hierarchy such that firms first prefer internal financing then choose debt when internal financing is not available and only choose equity as a last resort.

EMPIRICAL REVIEW

EARNING PER SHARE AND RETAINED EARNINGS

[18] examined the interactions between funding needs and internal funds results in the cross-sectional heterogeneity in leverage. It examined the interactions between retained earnings and capital structure. Along the dimension of retained earnings, they identified three groups of firms.

(i) low-retained Earnings (RE) firms which are low-levered because of a heavy reliance on external equity.

(ii) Medium-retained earnings firms which are high-levered because of an active use of debt in funding fast growth.

(iii) High-Retained Earnings firms which are low-levered because internal funds exceed funding needs.

Factors that motivate the retention/dividend policy among the cement industry in Karachi Stock exchange and state bank of Pakistan was explored by [19]. It was found that PE ratio, EPS growth and sale growth are positively associated with the dividend/retention payout while profitability and debt to equity were found to have negative association with dividend/retention payout.

DIVIDEND PER SHARE AND RETAINED EARNING

An exploration of the determinants of the dividend policy of firms in the Japanese electrical appliances industry was conducted by [20]. The research outcome reveals that corporate managers do not cater for investors' demands in both their dividend initiation and continuation decisions. The determinants of firm's dividend policies in the Japanese electrical appliances industry are value-weighted dividend yields, value weighted non-payers size and value-weighted after-tax earnings-to-total-asset ratios. It further reveals that dividend payments tend to decrease company retained earnings in the Japanese electrical appliances industry in contravention of the traditional signaling hypothesis.

The study of [21] was aimed at determining the dividend policies of the 60 industrial firms listed on the Amman stock exchanges (ASE) for the period of 2005-2009 and explain their dividend payment behavior. The study used the Tobit regression analysis and Logit regression analysis, and hence the random affects Tobit/Logit models were found more favourable than the pooled models. It was revealed that the dividend and the retention policies in Jordan as a developing country is influenced by factors similar to those relating to developed countries like Nigeria.

In New Zealand, [22] examined the determinants of corporate retention of non-financial firms. His findings suggest that the main determinants of corporate retention in New Zealand firm's growth opportunities, the variability of its cash flows, leverage, dividend payout and the availability of liquid assets substitute. While growth opportunities and the variability of cash flows are positively related to retention holdings, while large dividend payments indicate lower retained earnings.

TOTAL ASSET AND RETAINED EARNING

[23] investigated the interactions between retained earnings and provision for depreciation in Nigeria brewery industry. The aim of the study is to determine the direction and significance of the interactions between retained earnings and provision for depreciation in creating a pool of internal funds for asset replacement, investment and growth of the Nigeria brewery industry from 2000 to 2013. The variables considered as determinants were retained earnings and depreciation. The analysis reveals that provision for depreciation has a short term positive and significant effect on retained earnings. It shows that an increase in provision for depreciation in a year is expected to reduce the size of retained earnings for the year. However, as the asset advances in age, revenue dwindles, maintenance cost rises and production diminishes. This accounts for the decline in retained earnings. Depreciation provisions are still part of corporate retentions, as a provision does not involve actual cash movements but a source of internal funds for expansion and growth of the industry.

[24] opines that fixed assets depreciate with time, a fact that requires their replacement usually through amortization. They point out that amortization appears as a value equivalent of the irreversible deterioration of an asset as a result of its functioning of the effects of natural factors of technical progress and of other causes while a part of the assets, whose use is temporally unlimited. Conclusively they study posits that maintenance self-financing has an important consequence upon the performance of any economic entity because amortization provides for the renewal of the fixed assets that are fully depreciated and this can also be achieved through retained earnings of the firms.

[25] used regression analysis to investigate the determinants of corporate retention/cash holding by collecting data from 297 French firms over a period of (1998-2002) based on the trade off theory and the pecking order theory. He found that French firms increase their retained earnings when their activities are risky and the levels of their cash flow are high and reduce it when they are highly leveraged. Growing firms retain their earnings than mature firms. The retained earnings of mature firms increase with their size and decreases with dividend payout, trade credit and their expenses on research and development.

PROFIT AFTER TAX AND RETAINED EARNING

[26] study reveals that growth of corporate firms in India is substantially financed by retained earnings and that there is no transaction and bankruptcy cost, associated with retained profits which made it a major internal source of finance for companies when a firm has potential growth opportunities, there tend to be greater demand on internally generated funds accumulated through retention. Their results suggest that cross the classifications of sample companies cash flow and dividend are found to be the most influencing variables on retained earnings and companies with low investment opportunities for growth and expansion prefer to distribute much of their earnings as dividends. They emphasized that potential investment opportunities are likely to arise far off in the future for these companies. This implies that profit if retained remains

unutilized for long time or utilized in short-term investment opportunities which would yield low return on investment and such companies would prefer to pay out the earnings and raise capital whenever needed. Hence, they conclude that the level of earnings retained is very much influenced by the growth rate of the companies.

[7] examined the co-integration, magnitude and strength of the relationships between corporate retentions as proxied by retained earnings and some key financial performance indicators, in the Nigeria manufacturing industry using the Brewery sub-sector as a focal point.

The findings of this research is that reserves in terms of retained earnings are avenue for accumulating almost a cost free fund for investment purposes.
Retentions also provide the company management with internally generated fund without cut-throat interest rate or diluting the control or ownership structure of the company. If this internally generated revenue is invested properly, it will act as a catalyst for growth, development and expansion of firms in the Nigeria brewery industry.

[8] investigated the hypothesis that cash balance have a precautionary motive and serve to mitigate the volatility of operating earnings. He collected a sample of 9,168 firms-years conservations from Takyo stock exchange for the period of 1992 to 2003.

Through regression analysis, Nguyen found that cash retained earnings are positively associated with firm level risky but negatively related to industrial risk. He also found out that corporate retention decreases with the firm's size and debt ratio, and increases with its profitability growth prospects.

SUMMARY OF REVIEW

According to [9], companies with low investment opportunities for growth and expansion prefer to distribute much of their earnings as dividends. He concluded that the level of earnings retained is very much influenced by the growth rate of the companies. [13], reveals that provision for depreciation has a short term positive and significant effect on retained earnings. It shows that an increase in provision for depreciation in a year is expected to reduce the size of retained earnings for the year. [15], reveal that reserves in terms of retained earnings are avenues for accumulating almost a cost free fund for investment purposes. The study shows that corporate revenue reserves have a relationship with some financial indicators like Earning Per Share (EPS), Dividend Per Share (DPS), Profit After Tax (PAT), Total Assets among others.

It is worthy to note that most of the studies on retention policy were conducted in the developed economies.

RESEARCH DESIGN

The study is an *ex post facto* research design which provides a systematic and empirical solution to research problems by using data which are already in existence. According to [16], ex post facto research design provides a systemic and empirical solution to research problems by using data that are already in existence.

The study comprises of fifteen enlisted firms in the Nigerian Stock Exchange, such as 7up Nigeria plc, Cadbury Nigeria plc, Nestle Nigeria plc, Dangote Flour Mills Plc, Dangote Sugar Refinery Plc, Flour Mills Nigeria Plc, Nigeria Bottling Company, UTC Nigeria Plc, Big Treat Plc, Ferdinard Oil Mills Plc, Formost Dairies Plc, Northern Nigeria Flour Plc, Union Dicon Salt Plc, National Salt Company of Nigeria Plc and P.S. Mandrides and Company.

With the use of stratified sampling and random sampling technique, five (5) out of the fifteen (15) firms were selected from the four (4) sub-groups of the entire population.

The sub-groups are:

(i) 7up Nigeria plc and Nigeria Bottling Company.

(ii) Cadbury Nigeria plc, Nestle Nigeria plc, UTC Nigeria plc, Big Treat plc and Formost Daries plc;

(iii) Dangote Flour Mills plc, Flour Mills Nigeria plc, Northern Nigeria Flour Mills and Ferdinard Oil Mills plc.

(iv) Union Dicon Salt plc, National Salt Company of Nigeria plc, Dangote Sugar Refinery plc and P.S. Mandrides and Company.

It was from these sub-groups that Nestle Nigeria Plc, Cadbury Nigeria Plc, 7up Nigeria Plc, Northern Nigeria Flour Mills plc, and Flour Mills of Nigeria plc, were randomly sampled.

MODEL SPECIFICATION

The study adopted the multiple regression model which is:

$$\text{Log } RE_{ti} = \beta o + \beta_1 EPS_t + \beta_2 DPS_t + \log\beta_3 FS_t + \log\beta_4 PAT_t + e$$

Where

Log REti = log of Retained Earnings

EPS = Earning per share

DPS = Dividend per share

Log FS = Log of firm size

Log PAT = log of profit After tax.

β_o = Coefficient (constant) to be estimated.

β_1 - β_4 = parameters of the independent variables to be estimated.

t = current period.

e = stochastic disturbance (error) term.

The variables of the study were structured into dependent and independent for the purpose of the analysis. The dependent variable of the study is retained earnings (RE) while the independent variables are the Earnings per share (EPS), Dividend per share (DPS), firm size (FS) ie Total Assets and profit After Tax (PAT).

Table 1: Data on Retained Earnings and its determinants in Nestle Nigeria Plc for the period 2005-2014.

Year	Dependent variable	Independent variable	Independent variable	Independent variable	Independent variable
	Retained Earnings	DPS	EPS	Total Assets	PAT.
2005	6.10096	10.00	10.04	7.22725	6.72453
2006	6.76898	10.00	10.71	7.27665	6.75284
2007	6.75492	8.99	8.79	7.32741	6.73575
2008	6.92850	8.40	12.61	7.46478	6.92073
2009	6.99978	12.55	14.81	7.64592	6.99049
2010	7.01073	12.85	16.80	7.65897	6.97910
2011	7.11795	14.50	17.10	7.78333	7.10147
2012	7.33117	24.00	26.00	7.94921	7.32505
2013	7.35189	25.15	33.144	8.03426	7.34749
2014	7.40147	26.20	35.00	8.06147	7.40819

Source: Data was collected from the annual reports and accounts of Nestle Nigeria Plc for the period (2005-2014).

Table 2: Data on Retained Earnings and its determinants in Cadbury Nigeria Plc for the period (2005-2014).

Year	Dependent variable	Independent variable	Independent variable	Independent variable	Independent variable
	Retained Earnings	DPS	EPS	Total Assets	PAT.
2005	5.95186	1.30	2.19	7.350003	6.34167
2006	(6.70822)	-	(4.20)	7.44487	(6.65735)
2007	(5.92363)	-	(0.42)	7.40249	(5.66673)
2008	(6.47023)	-	(0.59)	7.37843	(6.47023)
2009	(6.01017)	-	(0.69)	7.40221	(6.01017)
2010	6.13103	-	0.43	7.45748	6.13103
2011	5.95176	0.83	1.21	7.51378	6.57786
2012	6.72401	1.00	1.41	7.60000	6.64364
2013	6.64920	1.09	1.92	7.6352	6.77983
2014	5.97492	0.39	0.75	7.45969	6.17975

Source: Data was collected from the annual reports and accounts of Cadbury Nigeria Plc for the period (2005-2014).

Table 3: Data on Retained Earning and its determinants in 7up Nigeria Plc for the period (2005-2014).

Year	Dependent variable	Independent variable	Independent variable	Independent variable	Independent variable
	Retained Earnings	DPS	EPS	Total Assets	PAT.
2005	5.64525	1.25	2.33	6.82627	5.97968
2006	5.81606	1.25	2.85	6.95433	6.06715
2007	5.74287	1.30	2.38	7.01733	6.08615
2008	5.97437	1.10	3.14	6.98862	6.20653
2009	5.88137	1.80	2.98	7.12343	6.18459
2010	6.07976	2.60	3.50	7.23350	6.23572
2011	6.31810	4.00	6.50	7.63980	6.515332
2012	5.59906	1.90	2.62	7.68561	6.22491
2013	6.19737	3.70	4.46	7.71071	6.45583
2014	6.70763	4.16	6.00	7.74713	6.80852

Source: Data was collected from the annual reports and accounts of 7up Nigeria Plc for the period (2005-2014).

Table 4: Data on Retained Earnings and its determinants in Northern Nigeria flour mills Plc for the period 2005-2014.

Year	Dependent variable	Independent variable	Independent variable	Independent variable	Independent variable
	Retained Earnings	DPS	EPS	Total Assets	PAT.
2005	5.78	0.50	0.99	6.28	5.17
2006	5.80	0.25	0.37	6.28	4.74
2007	5.65	-	0.70	6.30	(5.02)
2008	5.70	0.25	0.39	6.37	4.76
2009	5.90	0.26	0.45	6.40	4.80
2010	6.06	0.80	0.96	6.54	4.96
2011	6.17	0.91	1.00	6.61	5.10
2012	6.07	1.71	(0.12)	6.53	5.20
2013	6.15	-	1.23	6.56	5.40
2014	6.20	0.80	1.31	6.51	5.38

Source: Data was collected from the annual reports and accounts of Northern Nigeria Flour Mills Plc for the period (2005-2014).

Table 5: Data on Retained Earnings and its determinants in Flour Mills of Nigeria Plc for the period (2005-2014).

Year	Dependent variable	Independent variable	Independent variable	Independent variable	Independent variable
	Retained Earnings	DPS	EPS	Total Assets	PAT.
2005	2.84	2.91	1.26	4.60	3.16
2006	3.56	3.00	4.01	4.71	3.67
2007	3.86	3.14	3.54	4.83	3.94
2008	4.15	3.28	4.10	4.95	4.20
2009	4.40	3.29	3.90	5.25	4.80
2010	5.60	3.33	4.10	6.30	4.95
2011	6.90	3.34	3.02	7.97	5.69
2012	7.57	3.35	3.10	8.37	7.25
2013	7.62	3.40	2.82	8.45	6.88
2014	7.68	4.08	1.84	8.47	6.73

Source: Data was collected from the annual reports and accounts of Flour Mills of Nigeria Plc for the period (2005-2014).

Table 6: Correlations matrix

		Retained Earning	DPS	EPS	Total Assets	PAT
Retained Earning	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	50				
DPS	Pearson Correlation	.317(*)	1			
	Sig. (2-tailed)	.025				
	N	50	50			
EPS	Pearson Correlation	.358(*)	.984(**)	1		
	Sig. (2-tailed)	.011	.000			
	N	50	50	50		
Total Assets	Pearson Correlation	.147	.338(*)	.325(*)	1	
	Sig. (2-tailed)	.309	.016	.021		
	N	50	50	50	50	
PAT	Pearson Correlation	.908(**)	.358(*)	.393(**)	.189	1
	Sig. (2-tailed)	.000	.011	.005	.189	
	N	50	50	50	50	50

* Correlation is significant at the 0.05 level (2-tailed).
** Correlation is significant at the 0.01 level (2-tailed).

Table 7: Regression Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.657	1.716		.965	.340
	DPS	-.158	.196	-.285	-.804	.426
	EPS	.128	.158	.292	.814	.420
	Total assets	-.081	.249	-.021	-.325	.746
	PAT	.847	.065	.900	13.121	.000

a) Dependent Variable: Retained Earning

TEST OF HYPOTHESES

The hypotheses were tested using regression coefficient analysis.

Ho_1: There is no significant relationship between earnings per share and corporate retained earnings in the food and beverage industry.

Based on this, the study accepts the null hypotheses one (Ho_1) which states that there is no significant relationship between earnings per share (EPS) and corporate retained earnings in the food and beverage industry in Nigeria.

Ho_2: There is no significant relationship between dividend per share and corporate retained earnings in the food and beverage industry.

Based on the study, the test accepts the null hypotheses two (Ho_2) which states that there is no significant relationship between dividend per share (DPS) and corporate retained earnings in the food and beverage firms in Nigeria.

Ho_3: Firm size (Total Assets) is not significantly associated with corporate retained earnings in the food and beverage industry.

The result indicates that, the study accepts the null hypotheses three (Ho_3) which states that there is no significant relationship between total assets and corporate retained earnings in the food and beverage industry in Nigeria.

Ho_4: There is no significant relationship between profit after tax (PAT) and corporate retained earnings in the food and beverage industry.

Based on this, the study rejects the null hypotheses four (Ho_4) which states that there is no significant relationship between profit after tax (PAT) and corporate retained earnings in the food and beverage industry in Nigeria.

DISCUSSION

The correlation result between the dependent variable (retained earnings) and independent variables (Earning per share, Dividend per share, Total Assets and profit after tax) showed that profit after tax has a strong positive relationship with retained earnings with about 91%, while Dividend per share, earning per share and total assets have also positive relationship with retained earnings but not a strong one, 32%, 36% and 15% respectively, with retained earnings of non-financial firms. It is also obvious that the correlations between all of the variables are not significant except the one between profit after tax and retained earnings, at 1% level of significance.

The coefficient regression result showed that firm size (Total Assets) is not significant and equal to -0.081 which means that increase in the total assets has lead to decrease to the Retained Earnings of the non-financial firms in Nigeria particular in the food and beverages sector. The t-statistics value of /0.325/ is showing an insignificant effect on Retained Earnings. Further, sig >0.05 (i.e. 0.746> 0.05) confirming the insignificant effect of Total Assets on Retained Earnings.

The profit after tax is significant and indicated a positive effect with the Retained Earnings 0.847 and that means that the Retained Earnings of the firms increases as the profit after tax (PAT) of the firms increases over the years under study.

The Earning per share (EPS) is not significant but have a positive effect on the retained earnings of non-financial firms of food and beverages in Nigeria at 5% level of significance, so by keeping all other factors constant, one percent (1%) change in Earnings per share (EPS) has lead to 12.8% increase in Earnings.

Lastly, the results from the table shows that the Dividend per share have a negative effect on Retained Earnings of non-financial firms in Nigeria particularly in the manufacturing industry of the food and beverages sector in Nigeria, which indicates that an increase in Dividend per share has lead to decrease to the Retained Earning of the firm. Statistically it is not significant at 5% level of significance.

The result indicates that a very strong relationship is found between retained earnings and profit after tax (about 91%) agreeing with [17]. Furthermore the results indicate that all the independent variables showed positive relationship with retained earnings. The implication of the results therefore is that long run relationship exists between retained earnings, profit after tax and the rest of the variables. However, Retained Earnings have played very significant role in the boosting of firm financial performance and retention policies. Retained earnings can be explored by management in retention policies to enhance return of investments of shareholders without diluting corporate control of the shareholders.

From the result of the analysis, it was discovered that the retention policies of non financial organization have a significant positive relationship with profit after tax and earnings per share at 5% level while, total assets (firm size) and dividend per share have a negative and significant relationship with retention policies also at 5% level of significance. In the non-financial firms, which food and beverages is a major subsector, a very strong relationship (about 91%) is found between retained earnings and profit after tax while a weak relationship of (about 15%) is found between total assets and retained earnings.

In general, all the independent variables studied have a positive relationship with retained earnings of the non-financial firms of the manufacturing industry of food and beverages firm in Nigeria from (2005-2014).

The industry is a capital intensive one as a result requires fund to drive and sustain its production lines and other productive activities. In the course of time, the existing lines may go bad requiring either maintenance or outright replacement or the company may need expansion, reinvestment and settlement of debts which requires funds that can be provided from retained earnings. This will also help in reducing stock out and other related and relevant costs.

The implication of the findings of this research is that reserves in terms of retained earnings are avenues for accumulating almost a cost free fund for investment purposes. Retentions also provide the company management with internally generated fund without cut throat interest rate or diluting the control or ownership structure of the company. If this internally generated revenue is invested properly it will act as a catalyst for growth, development and expansion of firms in the food and beverages industry in Nigeria.

RECOMMENDATIONS

Based on the findings of this study the following recommendations are made:

(i) The reserves and other retention should be invested to earn a good return for the shareholders and to ultimately grow the firm.

(ii) Organizations should ensure that they have a good corporate retention policy in place. To achieve the objective, management should put up a technique that will make the firm have a sound earning per share which is a good indicator of a company's profitability that will attract investors to the company.

(iii) Management should see retained earnings as an avenue for accumulating almost a cost free fund for investment, expansion, diversification, acquire or replacement of assets and settlement of debts.

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