

# DIVIDEND POLICY AND PERFORMANCE OF QUOTED MANUFACTURING FIRMS IN NIGERIA

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## **Abstract**

*The study examined the impact of dividend policy on performance of quoted manufacturing firms in Nigeria, with focus on five manufacturing firms including Nestle Nigeria Plc, PZ Cussons Nigeria Plc, Unilever Nigeria Plc, Nigerian Breweries Plc, Seven-Up bottling company Plc. The study covered a period of five years spanning from 2011 to 2015. The study made use of panel data estimation techniques including pooled OLS estimation, fixed effect estimation, random effect estimation, alongside post-estimation test such as restricted F-test and Hausman test. Result revealed that dividend per share exert insignificant positive impact on firms performance measured in terms of return on capital employed ( $\beta=0.1748477$ ,  $p=0.823$ ), and that the impact of dividend payout ratio on firms performance is negative and insignificant ( $\beta=-6.702262$ ,  $p=0.247$ ). The study established therefore that dividend policy does not play significant role in the determination and/or adjustment of performance of manufacturing firms in Nigeria. Thus management of manufacturing firms should be circumspect to avoid being misguided on the contribution of dividend policy to performance, which could culminate into distribution of larger fraction of their earnings than necessary. Also there is need to design threshold of dividend distribution to avoid eroding fund that can be harness for future finance of the organization.*

**Keywords:** Dividend, Dividend Policy, Performance, Manufacturing, Firms,

## 1.0 Introduction

Dividend policy is becoming a central discourse in the management of firms in developed and emerging countries of the world (Anandasayanan & Velnampy 2016; Abdul, & Muhibudeen, 2015; Sindhu, 2014; Uwalomwa, Jimoh, & Anijesushola, 2012; Zameer, Rasool, Igbal, & Arshad, 2013; Priya, & Nimalathasan, 2013; Rehman, & Takumi, 2012). This policy remains one of the most important policies upon which the framework of the management of a company is hinged, as this to a large extent serve as a basis for sustaining the finance mix of an organization (Marfo-Yiadam & Agyei, 2011; Zameer, Rasool, Igbal & Arshad, 2013). Dividend payment decision comes into management decision trail after investment decisions and other finance decisions taken by the management had yielded considerable return. At this point management becomes concern whether to distribute all/proportion of the profit to its shareholders or ploughed the profit back into the business in form of investment. Without controversy management of organizations takes decisions regarding dividend payment having in mind the need to maximize the wealth of shareholders (Husam-Aldin, Michael, & Rekha, 2010). Firms often declare dividend payout to prove among other things that the company is making profit as expected, and that maximizing shareholders wealth is of importance to the management, especially after making consideration for available investment opportunities that can generate higher return and increase the future earnings of the stakeholders (Nnadi & Akpomi, 2008; Mizuno, 2007)

There is a growing concern about the true nature of the relationship between dividend policy and performance of firms, with divergence in views among scholars around the world as touching the impact of dividend payment on firm's performance. Some scholars (Anandasayanan, & Velnampy, 2016; Abdul, & Muhibudeen, 2015; Maditinos, Sevic, Theriou, & Tsinani 2007; Amidu 2007; Dong, Robinson & Veld 2005; Myers & Frank 2004; Baker, Powell & Veit 2002; Travlos, Trigeorgis, & Vafeas 2001) are of the view that dividend policy has significant impact on firm's performance, while some (Adesola & Okwong 2009; Denis & Osobov 2008; Uddin & Chowdhury 2005; Adefila, Oladipo & Adeoti 2004; Chen, Firth, & Gao 2002) argued that dividend policy has no influence on firm's performance. It thus stand that there is no consensus on the impact of dividend policy on firms performance globally.

In recent years investigations geared toward delineating the puzzle of the relationship between dividend policy and firm's performance in Nigeria reported conflicting discoveries. For example (Abdul and Muhibudeen, 2015; Dada, Malomo, & Ojediran, 2015; Abiola, 2014; Oghenechuko, 2015; Adediran & Alade 2013; Uwalomwa, Jimoh and Anijesushola 2012) revealed that dividend policy influence firm's performance, while on the other hand (Eyigege, 2015; Ifuero & Iyobosa, 2016; Adesola & Okwong 2009; Adefila, Oladipo & Adeoti 2004) submitted that dividend policy has no significant influence on performance of firms. Gap identified in literature include the fact that most of the studies conducted in recent years either combined firms from different sectors (Ozuomba, Anichebe, Okoye, 2016; Oghenechuko, 2015; Uwalomwa, Jimoh and Anijesushola 2012; Uwuigbe, Jafaru, & Ajayi, (2012) Adesola & Okwong 2009; Adefila, Oladipo & Adeoti 2004) or focus on firms from sectors other than the manufacturing sector (Dada, Malomo, & Ojediran, 2015; Abdul and Muhibudeen, 2015; Abiola, 2014; Adediran & Alade 2013), Few studies that focused on manufacturing sector (Eyigege, 2015; Ifuero & Iyobosa, 2016; Sa'adu, & Abdu 2016; Enekwe, Nweze & Agu, (2015) do not make use of panel based estimation which is believed to give more informative result with less collinearity, more degree of freedom and efficiency (Gujarati and Porter, 2009). More so the position of Eyigege (2015) that Nigerian manufacturing companies had hitherto recorded unstable trend in the payment of dividend to their shareholder, supporting the observation of Arumona (2008) that Nigerian manufacturing sector had not been consistent in dividend distribution over time, brought to mind the possibility of the inconsistencies in dividend payment to disrupt the true nature of the impact of dividend policy on firms performance of firms observed by previous studies. Hence this study investigated the impact of dividend policy on performance of selected manufacturing firms with consistent dividend distribution over a specified period of five years, using panel based techniques of estimations. Specifically the study set out to:

- (i) analyze the impact of dividend per share, on firm's performance measured in terms of return on capital employed.
- (ii) ascertain the influence of dividend payout ratio on firm's performance measured in terms of return on capital employed.

## 2.0 Literature Review

## Dividend Policy

Dividend policy had been conceptualized by several scholars around the world, all in an attempt to communicate what dividend policy connotes without mincing words. In the word of Booth and Cleary (2010) dividend Policy connotes a framework designed for making decision regarding the percentage of profit to be distributed and the part to be retained in the company for investment purpose. As viewed by Pandey (2000) dividend is part of the company's net earnings distributed to shareholders as return on their claim in the company usually based on recommendations by the board of directors. According to Brierman (2001), as well as Baker, Powell and Veit (2001) dividend is an appropriation of profits distributable to shareholders after making appropriate deduction of tax and fixed interest obligation related to debt capital. As emphasized by Jo and Pan (2009), dividend disbursement is one of the key factors that establish that a company is practicing the required corporate governance. Dividend policy decisions have also been identified as one of the primary element of corporate finance policy (Uwuigbe et al., 2012). As explained by Kania & Bacon (2005) dividend policy refers to guideline, regulation and policies that a company make use of, in deciding how to embark on dividend payment. In Dividend Policy researches, the most popular parameter chosen, as proxies for dividend policy are dividend payout and dividend yield (Ramadan, 2013; Asghar, Sheh, Hamid and Suleman, 2011). Dividend payout has been described by Ramadan (2013) as the ratio of total cash dividend distributable to common shareholders over the available net income for the shareholders whereas, the Dividend yield, can be described as profitability indicator shown as a cash dividend per share for common stocks divided by the per share market value. It can also be simply determined as dividend per share divided by the market value per share. There are four broad dividend policies in practice including residual payment policy, stable predictive dividend policy, Constant payout ratio policy, Low plus extra or bonus dividend policy (Yusuf, 2015)

## Firm's Performance

Firm's performance is a subjective measure of how well a firm can use its assets from its primary mode of business to generate higher revenues. All organizations have financial performance measures as part of their performance management, although there is debate as to the relative importance of financial and non-financial indicators. Evaluating the performance of a

business allows decision-makers to judge the results of business strategies and activities in objective monetary terms. Firm's performance can be measured in many ways. These include: Profitability which describe how much wealthy a company is making after paying for all the expenses and other charges. Firm's performance can also be measured using; Cash flow which is the difference between the amount of cash at the end of the period and the amount of cash at the beginning of the same period. In addition several ratios can be calculated from the balance to measure financial performance e.g Return on Assets, Return on Investments, Return on Equity,(Carolyne, 2015)

## Theoretical Review

### *Bird in Hand Theory*

Bird in hand theory which was hypothesized by Gordon in 1963 argues that there is existence of relationship between the value of a firm in terms of performance and dividend pay-out, because dividends are less risky and more certain than capital gains which makes investors to have a preference for dividends than capital gains (Amidu, 2007). Because dividends are supposedly less risky than capital gains, firms should set a high dividend pay-out ratio and offer a high dividend yield to maximize stock price. The essence of the bird-in-the-hand theory of dividend policy Lintner,(1962); Gordon, (1963) argues that outside shareholders prefer a higher dividend policy. Investors think dividends are less risky than potential future capital gains, hence they like dividends. If so, investors would value high pay-out firms more highly (Oppong, 2015). In relation to the above, this theory underpinning the variation of dividend sustainability proxied with dividend payout ratio on performance of manufacturing firms in Nigeria.

### *Residual Theory of Dividends*

The proposition of this theory is that the firm should only pay dividends from residual funds after all suitable investment opportunities have been financed. Theory emphasized that the firm's main focus is on investments and not dividends, which makes dividend policy irrelevant to finance decision. In this case, dividends are only paid when retained earnings exceed the funds required to finance investment projects, with this policy the need to raise fresh capital for investment is reduced, thus minimizing on floatation and signaling costs, hence minimizes the

weighted Average cost of capital (Carolyne, 2015). This theory explains the second objective of the study which is on the effect of retention decision on performance of manufacturing firms in Nigeria, which is that the wealth of its shareholders will be maximized by investing the earnings in the appropriate investment projects, rather than paying them out as dividends to shareholders.

### *Signaling Dividend Theory*

This theory was developed by Bhattacharya in 1979 and Miller and Rock in 1985 based on the argument that information asymmetries between firms and outside shareholders may induce a signaling role for dividends. They show that dividend payments communicate private information in a fully revealing manner. The intuition underlying this argument is based on the information asymmetry between managers (insiders) and outside investors, where managers have private information about the current and future fortunes of the firm that is not available to outsiders. investor's reactions to changes in dividend policy do not necessarily mean that investors prefer dividend to retained earnings, rather, they simply indicate that there is important information or signaling content in dividend announcementsCarolyne (2015).

### *Empirical Review*

Anandasayanan,&Velnampy, (2016) carried out an econometric analysis of the connection between dividend policy and corporate performance of listed manufacturing firms in Sri Lanka. The study specifically analyze the impact of dividend policy on corporate profitability of 23 listed firms over a period of 2009 to 2014 using dividend payout ratio and dividend yield as dividend policy variables, and return on equity and return on asset as measures of corporate profitability. Using regression analysis, it was discovered in the study that dividend policies has significant impact on corporate profitability of the selected firms. thus it was recommended in the study that firms should ensure that dividend policies put in place are robust enough to enhance their profitability

Rachid and Wiame, (2016) analyze the relationship between dividend payments and firms performance with focus on listed firms in Morocco. The model developed two models in the bit to provide and empirical validation for both bird-in-hand Modigliani and Miller's dividend theories. employing regression analysis using secondary data collated from the annual reports of firms, it was discovered in the study that dividend policy is an important factor

affecting firm performance as there is strong and positive relationship between dividend policy variables performance of selected firms hence the study concluded that dividend policy is relevant and that managers should devote adequate time in designing a dividend policy that will enhance firm performance and therefore shareholder value. Management of companies should also invest in projects that give positive Net Present Values, thereby generating huge earnings, which can be partly used to pay dividends to their equity shareholders

Dada, Malomo&Ojediran (2015) focused on critical evaluation of the determinants of the dividend policy of Nigerian banking sector using panel data of selected banks that listed on the Nigerian Stock Exchange (NSE) during 2008 to 2013. Data were analyzed with least square regression analysis. The results showed that dividend payment is positively related with leverage, performance, corporate governance and last year dividend while it is negatively related with firm's liquidity.

Eyigege, (2015) examined of dividend Payout on financial performance of manufacturing Firms quoted on Nigerian Stock Exchange. A total number of fourteen manufacturing firms were sample in the study over a period covering 2004 to 2013, the study analyzed data collated using regression analysis and found out that earnings per share, profitability (ROE), liquidity and sales growth are positively related with dividend payout, while financial leverage and corporate tax are negatively related. The study thus recommended that earnings per share, profitability (ROE), liquidity and sales growth should be strengthened to maintain stable dividend payment that will encourage prospective investors and that retained earnings should be seen a panacea to increase performance of the firms among others.

Abdul, &Muhibudeen, (2015) analyzed the relationship between dividend payout and performance of selected oil companies in Nigeria between 1999 to 2013, using data collated from annual report of the selected firms and techniques of estimation such as correlation and regression analysis. From the result of the study it was discovered that there is significant relationship between dividend payout and performance of the sampled f

Uwalomwa, Jimoh andAnijesushola (2012) investigated the relationship between the financial performance and dividend payout among fifty sampled listed firms in Nigeria between 2006 and 2010. Their findings were that there is a significant positive association between the performances of firms and the dividend payout

Fodio, (2009) conducted an empirical analysis of dividend policy of 53 firms quoted on Nigeria stock exchange, over a period of 1993 to 2002. the study analyze the connection between dividend policy and performance of the selected firms using five metric variables including previous dividend, current earnings, cash flow, investment and net current assets and three non-metric variables. Model estimation was done using regression analysis, and it was discovered that there is significant positive relationship between dividend changes and earnings as well as cashflow, but significant negative relationship between dividend changes and previous dividend. Investment is found to be negatively related and net current assets positively related to dividend changes. However, the relationships for both of them are found to be statistically insignificant.

### 3.0 Research Method

#### *Model Specification*

Model used in this study is based on the framework of dividend theory like the bird in hand as well as the signaling theory. These theories place importance on dividend policy a factor in the discourse of firm's performance. Model specified in the study relates dividend policy variables including Dividend per Share (DPS), Dividend Payout Ratio (DPR) as specific independent variables, alongside debt-equity ratio (DER) as control variable, with firm's performance measured in terms of return on capital employed (ROCE). Hence model to be adopted for this study is specified in linear form below:

$$ROCE_{it} = \alpha_0 + \alpha_1 DPS_{it} + \alpha_2 DPR_{it} + \alpha_3 DER_{it} + \mu_i$$

*Where:*

ROCE=Return on capital employed

DPS= Dividend per share

DPR=dividend payout ratio

DER=Debt-equity ratio

U(s)=Stochastic Error Terms

i=cross sectional unit subscript

t=period subscript

#### *Sources of Data and Methods of Estimation*



Data used in this study were collected from the annual reports of five randomly selected manufacturing companies including Nestle Nigeria Plc, PZ Cussons Nigeria Plc, Unilever Nigeria Plc, Nigerian Breweries Plc, Seven-Up bottling company Plc. Data collated covered a period of five years spanning from 2011 to 2015. Techniques of estimation employed in the study include pooled OLS estimation, fixed effect estimation, random effect estimation alongside post estimation test such as restricted f-test, and hausman test.

#### 4.0 Results and Discussion

##### Correlation Analysis

Table 1: Correlation Matrix

	ROCE	DPS	DPR	DER
ROCE	1.0000			
DPS	0.3913	1.0000		
DPR	-0.2557	-0.0112	1.0000	
DER	0.0900	0.0651	-0.1915	1.0000

*Source: Author's Computation, (2017)*

Correlation result presented in table 1 revealed the direction and magnitude of relationship between variable used in the study. Reported correlation coefficients for pairs of variables such as ROCE and DPS, ROCE and DPR, ROCE and DER stood at 0.3913, -0.2557, and 0.0900 respectively which implies that return on capital employed which represent performance of firms correlate positively with dividend per share, and debt-equity ratio, meaning performance of firms measured in terms of return on capital employed mean in the same direction with dividend per share, and leverage ratio of firms in terms of debt-equity ratio, though the magnitude of such positive relationship is weak especially in for the leverage ratio of the firm. On the other hand firms performance measured in terms of return on capital employed move in opposite direction with dividend payout ratio. Table 1 also reported the correlation between pairs of variables such as DPS and DPR, DPS and DER, DPR and DER with specific coefficients of -0.0112, 0.0651, and -0.1915 respectively, meaning dividend per share, dividend payout ratio, and debt-equity ratio move in opposite direction while dividend per share and debt-equity ratio move in the same direction. It is noteworthy to stress that there is no reflection of multi-collinearity amidst the explanatory variable given the magnitude of their interrelationship that is considerably weak.

Pooled Regression Analysis

Table 2: Pooled OLS Parameter Estimates

**Series:** ROCE DPS DPR DER

Variable	Coefficient	Standard Error	T-Test Values	Probability
C	30.16898	6.664123	4.53	0.000
DPS	0.6759477	0.3377026	2.00	0.058
DPR	-6.930689	5.498478	-1.26	0.221
DER	0.0633753	0.7252889	0.09	0.931

*R-square=0.5166, Adjusted R-square=0.5047, F-statistics=11.94, Prob (F-stat) =0.0048*

*Source: Author's Computation, (2017)*

Table 2 presents result of pooled OLS estimation carried out in the study. Estimated coefficients reported in table stood at 0.6759477, -6.930689, and 0.0633753 for dividend per share, dividend payout ratio, and debt-equity ratio respectively. Corresponding probability value reported in table stood at 0.058 for dividend per share, 0.221 for dividend payout ratio, and 0.931 for debt-equity ratio respectively. the result thus revealed that dividend per share and debt-equity ratio exert insignificant positive impact on firm's performance measured in terms of return on capital employed, while the impact of dividend payout ratio on firm's performance is negative and insignificant. Reported R-square value stood at 0.5166 which connotes that about 52% of the systematic variation of return on capital employed(measure performance) can be explained by joint variation in the values of dividend per share, dividend payout ratio and debt-equity ratio respectively. The significance of variation in return on capital employed explained by the explanatory variables is reflected by the reported f-statistics 11.94 and probability value of 0.0048.

Fixed Effect Analysis

Table 3: Fixed Effect Parameter Estimates (Cross Sectional Specific)

**SERIES:**ROCE DPS DPR DER

Variable	Coefficient	Standard Error	T-Test Values	Probability
C	44.80905	20.04362	2.24	0.039
DPS	0.1748477	0.7706071	0.23	0.823

DPR	-6.702262	5.590403	-1.20	0.247
DER	-0.6252046	0.7897234	-0.79	0.439
<b>Cross-sectional effects</b>				
PZ CUSSONS	-24.54119	21.56569	-1.14	0.271
UNILEVER	2.70807	18.94102	0.14	0.888
BREWERIES	-5.626802	17.73004	-0.32	0.755
7UP	-21.82915	17.93785	-1.22	0.240

*R-square=0.6113, Adjusted R<sup>2</sup>=0.4512, F-statistics=3.82, Prob(F-stat) =0.0113*

*Source: Author's Computation, (2017)*

In an attempt to incorporate the heterogeneity effect that may exist among the sampled firms, the study estimated least square dummy variable (LSDV) fixed effect model, which included in intercept estimate for each of the firms with respect to the intercept term of the reference firm in the model. Reported coefficient estimate in table 3 stood at 0.1748477, -6.702262, and -0.6252046 for dividend per share, dividend payout ratio and debt-equity ratio respective, alongside probability values of 0.823, 0.247, and 0.439 respectively. The result revealed that dividend payout exert positive insignificant impact on firms performance measured in terms of return on capital employed, while the impact of dividend payout ratio and debt-equity ratio is negative and insignificant. Differential intercept terms reported for firms other than the reference firm (Nestle Plc) with intercept term of 44.80905, stood at -24.54119 for PZ, 2.70807 for Unilever, -5.626802 for Breweries, and -21.82915 for 7UP. R-square value reported in table 3 stood at 0.6113 which implies that about 61% of the systematic variation in performance of firms sampled in the study can be explained by variation in dividend per share, dividend payout ratio and debt-equity ratio. Also reported f-statistics and probability value stood at 3.82 and 0.0113 which reflect that all the explanatory variables jointly and significantly influence firm's performance as measured in terms of return on capital employed.

#### Random Effect Estimation

Table 4: Random Effect Estimation

**SERIES: ROCE DPS DPR DER**

Variable	Coefficient	Standard Error	Z-Test Values	Probability
C	33.2973	9.845566	3.38	0.001
DPS	0.4256907	0.5569587	0.76	0.445
DPR	-7.210861	5.038866	-1.43	0.152

DER	-.4140988	0.6598162	-0.63	0.530
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*R-square=0.5825, Wald chi2=33.18, Prob> chi2=0.0047*

*Source: Author's Computation, (2016)*

The result of random effect estimation presented in table 4 reported coefficient estimates of 0.4256907, -7.210861, -.4140988 for dividend per share, dividend payout ratio, and debt-equity ratio respectively. Corresponding probability values reported in table 4 for DPS, DPR, and DER stood at 0.445, 0.152, and 0.530 respectively, which implies that none of the explanatory variables exert significant impact on return on capital employed. The reported R-square statistics for the estimation stood at 0.5825, meaning about 58% of the systematic variation in return on capital of firms sampled in the study can be explained by variation in dividend policy variables such as dividend per share, dividend payout ratio as well as debt-equity ratio. F-statistics and probability value reported in table 4 reflect that the joint effect of all the explanatory variables on return on capital employed when the heterogeneity effect is subsumed into the error term is significant like in other models estimated above.

Post Estimation Test

Table 5: Restricted F Test of Heterogeneity (Cross-Sectional Specific)

Null hypothesis	F-statistics	Probability
all differential intercept are not significantly different from zero	4.31	0.0137

*Source: Author's Computation, (2016)*

Table 6: Hausman Test

Null hypothesis	Chi-square stat	Probability
Difference in estimate of fixed effect and random is not systematic	40.25	0.0097

*Source: Author's Computation, (2016)*

Results of post estimation tests conducted to ascertain the most consistent and efficient estimator among estimators used in the study. Reported statistics for restricted f-test revealed that there is enough evidence to reject the null hypothesis that all differential intercept are not significantly different from zero, thus confirming the presence of heterogeneity effect among firms sampled for the study. Result presented in table 6 revealed that there is enough evidence to reject the null hypothesis underlining Hausman test in favour of the alternative hypothesis that the difference between fixed effect estimation and random effect estimation is systematic. Hence

the post estimation test results presented in table 5 and table 6 revealed that the most consistent and efficient estimator is the fixed effect cross-section specific estimation presented in table 3 above

### **Discussion of Findings**

Result of the most consistent and efficient estimator among estimators used in the study revealed that the impact on dividend per share on performance of firms sampled in the study as measured in terms of return on capital employed is positive but not significant, meaning that changes in dividend per share which often stem from the framework of dividend policy of firms does not significantly influence the level of firm's performance, the result also revealed that dividend payout ratio has no significant impact on the performance of firms sampled in the study though increase in its value will engender decrease in the value of firm's performance as measured using the yardstick of return on capital employed. With the two dividend policy variables reflecting insignificant impact on the level of performance of firm, it stands that in agreement with Modigliani and Miller's irrelevant theory of dividend policy, performance of manufacturing firms in Nigeria does not significantly respond to changes in dividend policy reflected by changes in dividend per share and dividend payout ratio framework of firm. This discovery buttress the findings of Eyigege, 2015; Ifuero & Iyobosa, 2016; Adesola & Okwong 2009; and Adefila, Oladipo & Adeoti 2004, though not in congruence with the position of Abdul and Muhibudeen, 2015; Dada, Malomo, & Ojediran, 2015; Abiola, 2014; Oghenechuko, 2015; Adediran & Alade 2013; Uwalomwa, Jimoh and Anijesushola 2012. By implication the result reflect that there is little to what changing the dividend policy of the firm will contribute in the determination and/or adjustment of the level of performance of manufacturing firm in Nigeria.

### **5.0 Conclusions and Recommendations**

Premise on the discoveries made as torching the impact of dividend per share and dividend payout ratio, it can be concluded that influence of dividend policy on performance of firms especially manufacturing firms in the Nigeria is not substantial, thus substantiating the irrelevance of dividend policy in the discourse of improved firms performance among manufacturing companies in Nigeria. The standing of the study is that even when there is

consistency in the distribution of dividend by manufacturing firms, it might not trigger substantial improvement in performance of manufacturing firms in the country. Hence the study recommend that management of manufacturing firms in the country should not be misguided on the contribution of dividend policy to improved performance to the point that they will consciously distribute more fraction of their earning than necessary thereby dampening the future growth prospect and investment diversification, however conscious effort should be put in place to design the threshold of dividend distribution that will not erode fund that can be harness in the organization for future finance.

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