DIVIDEND POLICY AND FIRM PERFORMANCE OF QUOTED FIRMS IN NIGERIA

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A PROJECT WRITTEN AND SUBMITTED TO THE DEPARTMENT OF FINANCE, FACULTY OF MANAGEMENT SCIENCES IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF BACHELOR OF SCIENCE (B.Sc) DEGREE IN FINANCE, UNIVERSITY OF BENIN, BENIN CITY

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DECLARATION

I, **Queen Janet ENEJO** do hereby declare that this project is entirely my work and composition. The work embodied in this project has not been submitted by another candidate for any degree and is not currently being submitted for any other degree. All references made to the works of other persons have been duly acknowledged.

_____ _____

Queen Janet ENEJO **Date**

CERTIFICATION

We, the undersigned certify that this research work was submitted by **Queen Janet ENEJO** and it is hereby approved for the partial fulfilment of the requirement for the award of Bachelor of Science (B.Sc) degree in Banking and Finance, University of Benin, Benin City.

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DEDICATION

This research work is dedicated to God Almighty for His guidance, strength and wisdom during period of the study.

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ABSTRACT

The aim of this study was to establish the effect and relationship between dividend policy and firm performance among selected quoted firms in Nigeria. In achieving the objective of the study, the study covered companies drawn across manufacturing sector of the Nigerian Stock Exchange Market from the period 2016-2024, evaluating the companies Leverage, Liquidity, Firm Size, and Firm age with two general methods of empirical analysis of data. The preliminary analysis (which comprises of descriptive and correlation analysis) of the data is first conducted to provide background analysis on the data that will generate the initial characterization of the data used in the study. Thereafter, the multiple regressions were conducted using the ordinary least square (OLS) method. The data were analyzed using E-view 0.8 econometric software. The finding was that Leverage (LEV) exerts a negative and strong relationship with Return on Asset (ROA) and the Firm's Age was negative too but significant. This implies that age of a firm has a long way to impact on the returns of Asset of the firms. This implies that returns on shares may be favourable in the short run but in the long run may affect the investment opportunities of the firm. We now recommend that firm's total assets (fixed and current) should be maximized to help facilitate appropriate earnings so as to increase shareholders wealth without any deception of increased income.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Dividend policy of an organization and how it affects their performance has remained one of the hottest and keenly debated issues till date. In spite of growing bodies of literature and empirical findings, there has not been any general acceptance or conclusion on the extent dividend policy may influence corporate performance. Dividend decisions are important because they determine what funds flow to investors and what funds are retained by the firm for investment (Ross, Westerfield, Jaffe, 2002; Alobari, Paago, Igbara, & Emmah, 2016; Morrison, Ajoku, Nwikiabeh, & Leekaaga, 2016). Dividend policy of a firm is therefore an important one in the current business environment as it remains one of the most important financial policies not only from the viewpoint of the company, but also from that of the shareholders, the consumers, employees, regulatory bodies and the Government (Ali, 2003).

According to Litner (1956), management continuously alternate the rate of dividend payments until it reaches an optimal dividend policy level in the long run. Hence dividend policy is summarized into three perspectives; the amount to pay, the frequency of dividend payments and the mode of paying dividends which is either in cash or non-cash form. The

amount paid to shareholders by the management is further guided as either residual or stable dividend policies.

The link between dividend policy and financial performance is governed by Jensen and Meckling (1976) agency theory which advocates that two parties, namely; the shareholder and the manager are in harmony in their interests. Modigliani and Miller (1961) argued that firm value and financial performance is associated to the ability of a firm to generate more earnings hence dividend policy is ineffective determinant of firm financial performance (dividend irrelevance theory). Lean (2008) defined financial performance as the measurement of the outcome of firm strategies, policies and operations in monetary terms. These results are reflected in the firm return on assets and return on investments.

From a wider perspective, financial performance of a firm takes both accounting and market based dimensions (Waggoner, Neely & Kennerley, 2009). The accounting based proxies used to measure financial performance are; return on equity, earnings per share, return on assets and operating cash flows (AI-Malkawi, 2007). The market based indicators commonly used in measuring financial performance are; Tobins Q. This is the ratio of the market value of a firm's assets (as measured by the market value of its outstanding stock and debt) to the replacement cost of the firm's assets (Tobin 2009).

The patterns of corporate dividend policies not only vary over time but also across countries, especially between developed, developing and emerging capital markets. There has thus been emerging consensus that there is no single explanation of dividends and

hence the dividend puzzle remains yet unresolved. As a result, finance scholars have engaged and are still engaging in different empirical studies to explain the dividend policy.

In view of these, the research tried to add to the existing literatures on firm performance and dividend payout and to resolve the problems faced by quoted firms in Nigeria by analyzing the performance of some selected quoted firms in Nigeria Stock Exchange (NSE) and the effects of such performance on their dividend payout.

1.2 Statement of the Research Problem

Ross (1977) states that an adequate performance measure ought to give an account of all the consequences of investments, on the wealth of shareholders. The main objective of shareholders in investing in a business is to increase their wealth. There are certain factors that influenced firm performance. These factors include: dividend policy of the firm, leverage, firm size, liquidity, earnings per share, management duality, age of the firm, capital adequacy, growth in sales etc (Oppong, 2015; Oladippupo, 2017). These performance indicator dimensions were used by different academic researchers in their previous studies and results were inconclusive because of the mixed findings. Prominent and recent among the previous studies are Ayunku and Etale (2016), Narang (2018), Giang and Tuan (2016), Ahmad and Rehman (2015), Oladipupo (2017), Turakpe and Legaaga (2017), Simon-Oke and Ologumva (2016), Oppong (2015) and Wanjiru (2015). Ayunku and Iftale (2016) observed that dividend policy and Earnings Per Share (EPS) have relationship with firm performance in Nigeria. But the study used net profit to proxy firm

performance as against Return on asset or Return on equity. And the study did not consider other determinant of firm performance like size, liquidity and leverage in their model. Narang (2018) showed that dividend policy does not have significant effect on firm performance. But the study only considered dividend payout, EPS and price earnings ratio using Ordinary Least Square (OLS) regression techniques in Indian market.

Giang and Tuan (2016) indicated that financial performance, dividend payout have significant impact on firm value. However, the dataset of this study stopped at 2014 and the study was carried out in Vietnam. Ahmad and Rehman (2015) revealed that dividend payout ratio has negative effect on firm's profitability. But the study only used simple regression techniques with ROA and EPS variables without considering other determinants of firm performance. The study was carried out in Pakistan and the result may not be applicable to Nigeria. Oladipupo (2017) observed that dividend policy has relationship with firm performance in Nigeria. But the study randomly select firms in different sectors of the economy without scientific procedure and it used Market Price of Share (MPS) as a measure of firm performance as against ROA or ROE or Tobin's Q measurement. Turakpe and Lagaaga (2017) showed, that dividend policy, profit after tax is positively related to firm performance (ROA) in Nigeria. However, the study used Nigeria breweries and selected banks and OLS long run regression techniques as against panel regression techniques. And the result may not be applicable to the manufacturing sector in Nigeria. Simon-Oke and Ologunwa (2016) revealed that dividend policy, EPS, DPS, Retained Earnings Per Share (REPS) and Return on investment have significant effect on firm

performance. But the study used MPS to proxy performance as against ROA or ROE. It used OLS regression techniques that did not control for endogeneity problem.

Oppong (2015) revealed that dividend policy has significant effect on firm performance. But the study used banking sector and it was carried out in Ghana, as such the findings might not be valid in Nigeria. The gaps identified in some of the previous studies are scope and methodological gap. Scope gap is the place, period and variables used for study. Methodological gap is the estimation technique used in some pervious research as observed in the literature. In the literature, it becomes glaring that studies that examine the effect of dividend policy, together with other determinants variable of leverage, liquidity, firm size, firm age on firm performance proxy by accounting base (ROA or ROE) and market base (Tobin's q) within Panel Regression Model framework is scarce in Nigeria to the best of my knowledge. It is against this background this study intends to fill the identified gaps in knowledge by investigating the effect of dividend policy on firm performance in Nigeria.

1.3 Research Questions

In view of the above, this study specifically tried to provide answers to the following research questions:

i. What is the nature of the relationship between Leverage and Firm Performance in Nigeria?
ii. What relationship exists between Liquidity and Firm Performance in Nigeria?

iii. To what extent does Firm Size influence listed quoted firm's performance in Nigeria?

iv. Does any relationship exist between Firm Age and Firm performance of quoted companies in Nigeria?

1.4 Objectives of the Study

The aim of this study was to establish the effect and relationship between dividend payout and firm performance among selected quoted firms in Nigeria. The study was also be guided by the following specific objectives;

i. To determine the impact of Leverage on Firm Performance of listed quoted firms in Nigeria;

ii. To assess the effect of Liquidity on Firm Performance of listed quoted firms in Nigeria;

iii. To examine the impact of Firm Size on Firm performance of listed quoted firms in Nigeria;

iv. To ascertain the impact of Firm Age on Firm Performance of quoted firms in Nigeria?

1.5 Hypotheses of the Study

In line with the research questions and objectives of the study, the following hypotheses stated in their null form was tested;

H_{01}: Leverage has no significant relationship with firm performance in Nigeria.

H_{02}: Liquidity has no significant relationship with Firm Performance in Nigeria.

H_{03}: Firm Size has no significant relationship with Firm Performance in Nigeria.

H_{04}: Firm Age has no significant relationship with Firm Performance in Nigeria

1.6 Scope of the Study

The scope of this study covered companies drawn across manufacturing sector of the Nigerian Stock Exchange Market from the period 2016-2024. Looking at their Leverage, Liquidity, Firm Size, and Firm age. The choice of selection of the companies was justified given that they were selected from the most capitalized and most active sectors in the stock market using the index of volume of shares traded as at the study period. Also the time scope was based on firms with positive earnings, record of cash flows and dividend payment during the period of the study.

1.7 Significance of the Study

This study is significant since it looks at Dividend Payout Ratio and Firm Performance on a vital sector of the Nigerian Stock Market. This is because the sector under consideration are among the most active and highly regulated in the stock market. The results of this study, it is hoped, will provide investment analysts, portfolio managers and investors with information on the relevance of dividend payout and firm performance in Nigeria, hence

making it a veritable tool for policy formulation to both corporate managers and the government.

To the investors, the study findings will be a cornerstone for them to determine optimum portfolio to be held at any given time, judging by the firm's performance and the expected dividends. It will empower them to know the kind of information to be disclosed by firms on the financial statement pertaining to performance indicators and dividend payout ratio for rational decisions on companies to invest in.

For academicians, the findings of this study will make contributions to the existing hypotheses on investor's behaviour towards firm's performance and their dividend policies and it will also be used to establish research gaps and provide reference for further research under the field of firm performance and dividend payout policy.

For organizations, the study will enable managers to institute policies that can improve performance and implement healthier dividend policies.

It is also hoped that the result of this study will encourage firms to regularly report their financial performance and prospects to statutory government agencies like Securities and Exchange Commission (SEC), Central Bank of Nigeria (CBN), Nigeria Deposit Insurance Corporation (NDIC), Debt Management Office (DMO) and Ministry of Finance in line with their legal framework as enshrined in the Companies and Allied Matters Act 1990

Part II (379-382) that provides the basis under which dividend can be paid. And this will also serve as reference point for other Less Developed Countries (LGCs).

Lastly, researchers will benefit by having in-depth understanding of the effect and correlation between firm performance and dividend payout.

1.8 Limitations of the Study

There are several limitations in this study. First, the study was limited to only one sector ^Manufacturing which represent one of the sectors, which would not be sufficient, totally, to generalize the inferences to the whole of a country, Nigeria. Secondly, the data used for this study was secondary in nature. Therefore, the accuracy of the results of analysis is dependent, too, upon the reliability and accuracy of the compiled secondary data. However, the quality of the sources Annual financial reports of the sampled firms and the Nigerian Stock Exchange Fact Books) of data attests to their reliability and therefore robustness of the conclusion.

CHAPTER TWO

REVIEW OF LITERATURE

2.1 Introduction

This chapter focuses on the review of conceptual, theoretical and empirical framework as relevant and related to Dividend Policy and Firm Performance.

2.2 Conceptual Framework

2.2.1 Concept of Dividend Policy

Dividends have been seen differently by different writers. According to Arthur and Sheffrin, (2013) they are payments by a corporation to its shareholder members; that part of corporate profits that paid out to shareholders. In this understanding, when a corporation earns a profit or surplus, that money can be put to two uses: it can either be re-invested in the business, or it can be distributed to shareholders. Some research reports (De Cesari, Espenlaub, Khurshed and Simkovic, 2011; Simkovic, 2009) supports two ways to distribute cash to shareholders which includes: share repurchases or dividends. Managers avoid reduction in dividend because of the sticky signal it sends to the investors and shareholders. It may be a hallmark of incompetent management or a tip of an iceberg of future failure (Odia and Ogiedu, 2013).

The corporate dividend plans varies over time but also across the different countries, especially between industrialized, unindustrialized and evolving Capital markets. Dividend policy directly affects a company's cost of investment (Khan, Nadeem, Islam, Salaam, & Gill, 2016). Dividends are usually paid out of the current year's profit and sometimes out of general reserves. They are normally paid in cash, and this form of dividend payment is known as cash dividend. Another option available to a company for the distribution of earnings is by stock dividend (bonus issue) which is supplementary to cash dividend. When cash dividend is paid to shareholders, it has an adverse effect on the liquidity position and the reserves of the firm as it tends to reduce both of them (cash and reserves). Unlike cash lend, stock dividend does not affect the total net work of the firm, as it is a capitalization of owners' equity portion (Adellla, Oladipo and Adeoti, 2009). According to section 370 sub-section (I) of CAMA, a company may in the annual general meeting, declare dividend only on the recommendation of the Directors. The Company may from tune to time pay to the members such interim dividends as appear to the directors to be justified by the profits of the company. According to sub-section (3), the general meetings shall have power to decrease the amount of dividend recommended by the directors, but shall have no power to increase the amount recommended. While sub-section (5) stated that, subject to the provisions of these act, dividend shall be payable only out of the distributable profit of the company. Furthermore, section 381 of CAMA states that a company shall not declare or pay dividends if there are reasonable grounds for believing the company is or would be, after the payment, unable to meet up with or pay its liabilities as they become due.

Dividend policy is also considered as the regulations and guidelines that a company uses to decide to make dividend payments to shareholders (Nissim & Ziv, 2011). The dividend policy decisions of firms in the view of Uwuigbe, Jafaru & Ajayi (2012) are the primary element of corporate policy. However, the dividend payout of firm's is not only the source of cash How to the shareholders but it also offers information relating to firm's current and future performance.

Abor and Bokpin (2010) noted that current and past years' profits are important factors in influencing dividend payments. Firms which continually post good profits are in a better position to pay dividends to their shareholders. On the contrary, companies that perform poorly over many years are unable to sustain dividend payments to their shareholders.

Dividend is determined by different factors in an organization. Basically, these factors include financing limitations, investment chances and choices, firm size, pressure from shareholders and regulatory regimes (Ajanthan, 2013). Dividend policy can be different for different countries because of different tax policies, rules, regulations and different institutions and capital markets (Zameer, Rasool, Iqbal and Arshad, 2013). To arrive at dividend, the earnings per share is calculated using:

Earnings per share = N/T

Where N= Net profit after tax and T= Total number of outstanding shares/stocks.

Dividend per share shows the actual amount paid to each stock as dividend from the profit allocated to the total shares held.

Dividend per share (DPS) = No of common share outstanding

Dividend Payout Ratio measures the earnings accrued to each share and the actual

Dividend payout ratio = Dividend per Share/Earnings per Share

There are two metrics which are commonly used to gauge the sustainability of a firm's dividend policy (Wikipedia, 2016).

Payout ratio: is calculated by dividing the company's dividend by the earnings per share. A payout ratio greater than 1 means the company is paying out more in dividends for the year than it earned.

Dividend cover: is calculated by dividing the company's cash flow from operations by the dividend. This ratio is apparently popular with analysts of income trusts in Canada.

2.2.1 Dividend Payment Dates

Arthur and Sheffrin (2013) provided insights into various dividend policies and dates. They include the following

- **Declaration date:** is the da) the Board of Directors announces its intention to pay a dividend.
- **In-dividend date:** is the last day, which existing holders of the stock and anyone who buys it on this day will receive the dividend, whereas any holders selling the stock lose their right to die dividend. After this date the stock becomes *ex dividend.*
- **Ex-dividend date:** is the day on which all shares bought and sold no longer come attached with the right to be paid the most recently declared dividend. Existing holders of the stock will receive the dividend even if they now sell the stock, whereas anyone who now buys the stock will not receive the dividend.
- **Book closure Date:** Whenever a company announces a dividend pay-out, it also announces a date on which the company will ideally temporarily close its books for fresh transfers of stock.
- **Record date:** Shareholders registered in the **stockholders of record** on or before the date of record will receive the dividend. Shareholders who are not registered as of this date will not receive the dividend. Registration in most countries is essentially automatic for shares purchased before the ex-dividend date.
- **Payment date:** is the day when the dividend checks will actually be mailed to the shareholders of a company or credited to brokerage accounts.

2.2.2 Types of Dividend Policies

Before Nigeria gained her independence in 1960, there were very little dealings in shares in Nigeria and along these lines dividend policy and share prices were detached in the general economy, in light of the fact that an institution like the Stock Exchange which functions as an avenue for fund mobilization and growth of local capital formations were inadequate. The ramification of this was that Nigerian who had surplus liquidity had no neighborhood speculation outlet to channel such and therefore, there were huge outflow of funds for interest in the British market (Uzoaga, 2008). However, with the foundation of the Lagos Stock Exchange who acted as a limited liability company under section 21 of the stock exchange was thus set for activities in securities. The first offer of share was made in Nigeria to the public in February 1969 when the conventional shares of the Nigerian Cement Company Limited were offered to the public. Since firm's shares were offered to the public and varied investors have divergent views for subscription, its along these lines that a deliberate policy must be pursued to guide against divided in order to promote the company's growth and market value (Uzoaga, 2008).

Dividend policy is a statement guiding the payment or appropriation of profit between the firm and the residual owners. It is a statement clarifying the proportion of profit that should be paid out as dividend to shareholders taking cognizance of the organization environment and the expectations of the shareholders. It is a statement that compromises the two extreme of zero percent dividend (retain all) and hundred percent dividend (pay-out all) (Baker

Kent, 2009). Dividend policy assists management in decision making as regards to what to do with profit earned during a financial period.

According to Modigliani, the dividend policy of a firm determines the magnitude of the earnings distributed to shareholders. The net operating profit or profit after tax (PAT) has to be intelligently apportioned between dividend payments and investment (Modigliani, 1961). It also determines the amount of dividend payment to be made to the shareholders, the date of payment of dividends and the effect of the dividend policy on the value of the firm. The several types of dividend policies are discussed as follows:

- **Constant Pay-out Dividend Policy:** This is a policy of paying constant percentage of earnings as dividend. A company could have a policy of paying out 20% of its earnings as dividend. With this policy, dividends fluctuate with earnings. This kind of policy will not favour an investor who is seeking a level of dividends as a steady source of income. Thus, most firms do not follow such policy (Corporate Finance. 2018).
- **Regular Dividend Policy:** This is the most common dividend policy and it involves paying a regular steady dividend. With this policy, once a company begins with a particular level of dividend, shareholders can be sure that it \\ill not reduce and will be sustainable in the future. The dividend may grow at a steady rate. Management should avoid cutting dividend. Once the dividend goes up, the firm will make efforts to ensure that it does not go down. However, if earnings drop

below the estimated dividend sustainable level consistently, the firm might eventually consider a cut in dividends (Da Silva, 2014).

- **Multiple Increase Dividend Policy:** This is a policy whereby a firm announces frequent but small dividend increase just to give an impression of growth and movement. A firm that follows this policy believes that the stock market will consistently respond to dividend increase.
- **Regular plus Extra Dividend Policy:** This is a policy whereby a firm pays extra dividends. The firm will divide its announced divided into two portions- a regular dividend and an extra dividend. The regular dividend will continue to be paid at the announced level and the extra dividend will be made as circumstance will permit (Baker, 2015). The extra dividend is considered to have a signalling effect.
- **The Residual Dividend Policy:** This is a dividend policy whereby the company chose to rely on internally generated equity to finance any new capital projects. Dividend payment will only come as residual after all capital projects have been met. The residual dividend model requires the company to attempt to maintain a target capital structure before making any dividend contributions (Troughton, 2012).

2.3 Firm's Performance

Financial performance as documented by (Copisarow, 2010) is considered as how good is the position of a firm, and how efficiently a firm is using its assets to earn more revenues

and enlarge its operations. Giang and Tuan (2016) in analyzing how dividend policy is armed at documented that at the end of fiscal years, the results of financial management in corporations with other business activities are reflected on firms' financial statements and measured by financial indicators.

The income distribution according to Giang and Tuan (2016) can be divided into two sub-decisions: "cost covering decisions" and "dividend payment" decisions. In the stock market the financial decision to which investors pay much attention is the dividend decision. The decision reflects comprehensively the firm's financial performance; the firm's intention in developing investor relationships, and its sustainability in the stock market. Khan et al. (2016) noted that different techniques are used to measure the financial performance. Revenue from operational activities, total units sold and market share of a firm can he an indicator of performance.

Measurement can be done through several financial ways such as profit after tax, ratios, return on equity, and return on assets, return on investments (RO1), earnings per share and other acceptable ratios. ROA measures now profitable an asset is in generating revenue, a firm's ability to generate income from proper utilization of the resources available (Bodie, Kane and Marcus, 2011). It is a ratio of net income to its average total asset. A higher return on assets shows a firms efficiency to utilize its assets. Return on equity (ROE) measures the profitability of a firm from its ability to utilize the shareholders' investment. It's the return on shareholders' investment.

2.4 Relationship between Dividend Policy and Corporate Performance

Every decision that a business makes has financial implications, and any decision which affects the finances of a business is a corporate finance decision. Studies have shown that the financial manager has three main types of financial decisions to make and these are as summarized by Giang and Tuan (2016):

1) **Investment decisions:** "Where do they invest the scarce resources of their business? And what makes a good investment?"
2) **Finance decisions:** "Where do they raise funds for these investments? What mix of owner's money (equity) or borrowed money (debt) do they use?" and
3) **Profit distribution decisions:** "How much funds should be reinvested in the business and how much should be returned to the owners?" While making these decisions, corporate finance is single-minded about the ultimate objective, which is assumed to be maximizing the value of the business.

Dividend decisions are important because they determine what funds flow to investors and what funds are retained by the firm for investment (Ross, Westerfield, & Jaffe, 2012). More so, they provide information to stakeholders concerning the company's performance. Firm investments determine future earnings and future potential dividends, and influence the cost of capital (Foong, Zakaria & Tan, 2017). According Manum, Hoqne, Mohammad and Manum (2013), there is no gam to investors due to dividend declaration. They argued that investors' wealth deteriorates due to shares prices declines pro and pro dividend

declaration. This was attributed to continued market corrections as per regulatory requirements to minimize the chances of bullish market. Firm performance can be measured by the earnings generated by the company in terms of profitability. There is therefore constant debate and great concern on the relationship between dividend policy and corporate performance in both developed and developing countries. Several theories have been proposed to explain the relevance of dividend policy and whether it affects firm value, but there has not been any universal agreement.

2.4.1 Leverage and Finn Performance

According to the theorem of Modigliani and Miller, a firm's value is unaffected by the way that it is financed, e.g. whether the firm is financed by debt or equity. However, one of the assumptions under which they state this theorem holds, the absence of bankruptcy cost, is known to be untrue in real life. When the assumption of the absence of taxes is relaxed, the fact that companies can benefit from the so called tax shield can be taken into account (Hillier, Clacher, Ross, Westerfield & Jordan, 2011). Due to the tax deductibility of the interest paid on the debt, one could easily argue that increasing debt will increase firm value due to the benefits obtained from the tax shield. When taken to far, however, firms might become threatened with bankrupts due to increased financial distress costs. Apparently, capital structure decisions can affect firm performance and should, thus, be addressed. Taken both the tax shield and the financial distress costs into account, an inverted U-shape relationship can he expected between the amount of leverage and firm

performance. Several .studies have been carried out to examine the relationship between financial leverage and other financial measures such as corporate governance, performance, environmental risk and a host of other issues. For instance, Safieddine and Titman (2009) explores leverage and corporate performance from unsuccessful takeovers in New York. The study find that on average, targets that terminate takeover offers significantly increase leverage ratios and targets that increase leverage ratios the most decrease capital expenditures, cut employment, lessen focus and help realize cash flows and share prices that outperform failed takeover. The study additionally indicates that higher leverage helps firms remain independent. Laurent (2012) tests the relationship between leverage and corporate performance in France, Germany and Italy. The regression statistical technique was adopted on various sets of variables (leverage, tangibility, short-term liabilities, inventory and size). The .study found mixed evidence depending on the country; while significantly negative in Italy, the relationship between leverage and corporate performance is significantly positive in France and Germany.

2.4.2 Liquidity and Firm Performance

Liquidity which is an important issue in financial decision making can be defined as a measure of the extent to which a person or organization has cash to meet immediate and short-term obligations, or assets that can be quickly converted to do this. There are sufficient literatures to document a strong link between liquidity and firm performance. Fang et al. (2009), for example, show that firms with liquid stocks perform better than

firms with illiquid stocks. In another related study, Wu and Liu (2011) document similar results by showing that liquidity positively affects firm performance. This strand of literature argues that liquidity enhances tradability of cash flow and control rights associated with stocks, provides ability to outsiders lo become block-holders and monitor management, promotes efficient management compensation by making stock prices more efficient, and reduces managerial expropriation In allowing shareholder to exit (Edmans, 2019; Admati and Pfeiderer, 2019; Palmiter, 2012; Maug, 2008; Holmstrom and Tirole, 2003). Omar Farooq (2012) in his work shows that investors value firms with higher liquidity more than otherwise similar firms with lower liquidity. One of the reasons behind positive relationship between liquidity and firm performance is that investors can infer value relevant information from liquidity in information scarce and relatively thinly traded emerging markets. It is commonly accepted fact that liquid stocks incorporate more information than illiquid stocks. As a result, prices of liquid stocks are more informative, and therefore less risky, than illiquid stocks. An important benefit of more informative stock prices is that it makes it hard for managers and controlling shareholders to expropriate resources out of firms. Therefore, risk on investing is small in liquid stocks.

2.4.3 Firm Size and Firm Performance

Depending upon the size, different firms possess different capabilities of utilizing their short term resources, adopt different working capital policies and follow different corporate governance practices resulting in variations in their financial performances. Said Shah,

Safdar Husain Tahir, Jamil Anwar, and Manzoor Ahmad (2016) examined the impact of firms' size on firm's financial performances using ratio and regression analysis. Results show that size has a crucial role in determining firms' performance whereas it has no significant impact on working capital management efficiency: small firms follow aggressive working capital policy whereas large firms follow conservative working capital policy and that firms' size negatively affects quality of corporate governance.

On the other hand, firms welcome the benefits brought about by economies of scale and on the other hand an increase in a firm's size exposes it to higher agency costs which are expected to further increase in extensively held companies because of agency conflicts and differences in interests among contracting parties (Jensen and Meckling, I976). Thus size holds considerable for firms as there is always a tradeoff between scale economies and agency problems. Furthermore, organizational size also influences a firm's performance as smaller firms are more likely to benefit from the spirit of corporate entrepreneurship for growth while larger firms use their financial and market power to enhance their productivity and profitability. There are many ways; the size of a firm affects its performance. The characteristics like diverse capabilities, the ability to make use of scale economies and formalization of procedures make a larger firm superior than smaller firms in terms of financial performance (Penrose, 2009).

2.4.4 Firm Age and Firm Performance

Age is the length of time during which a being or thing has existed. We defined firm age as the number of years of incorporation of the company; even though some believe that listing age, should define tire age of the company (Shumway, 2011). According to him, listing age is more economical since listing is a defining moment in the company' life. Shumway's argument is debunked from the perspective of the company as a legal personality (Waelchi & Pdferer, 2011). As a legal person, a company is born through incorporation (Gitzmann, 2018; Pickering, 2011). Hence our preference for the year of incorporation as the definition of the age of the company. The relationship between firm age and firm performance is contentious. While some reported the positive and significant relationship between age and profitability (Halil & Hasan, 2012; Papadogonas, 2017; Akinyomi & Olagunju, 2012). Others have reported negative relationship (Majumdar, 2007; Dogan, 2013 and Coad, Segarra & Teruel, 2017). This mixed reaction has made the debate inconclusive. Over time, firms discover what they are good at and learn to be more efficient, Arrow (2002), Jovanovic (2002), and Ericson and Pakes (2005). They specialize and find ways to standardize, coordinate, and speed up their production processes, as well as to reduce costs and improve quality. Success, however, also induces firms to codify their approach with the proper organization and processes.

This behavior seems to increasingly entangle firms in structural and process-related rigidities that are difficult to shed (Leonard-Barton, 2002) and that induce companies to

ignore innovation signals sent by the market. Moreover, old age may make knowledge, abilities, and skills obsolete and induce organizational decay (Agarwal and Gort, 2006, 2012). On balance, it is unclear whether aging helps firms prosper or whether it dooms them.

Majundar (2007) investigated the impact of size and age on firm- level performance of 1020 Indian firms. It was discovered that Indian older firms are more productive but less profitable. In the same vein, Dogan (2013) focused on 200 companies listed on the Istanbul Stock Exchange from 2008 to 2011. The study found a negative relationship between age and profitability. Coad, Segarra and Teruel (2007) using a sample of Spanish firms from 1998 to 2006 (bund that firm performance improve with the age of the firm and that older firms have a lower level of productivity and profitability.

The negative relationship between firm age and profitability may be ascribed to the Gardner (1965) organismic life cycle analogy that: "like people and plants, organisations have a life cycle...a time of flourishing strength and a gnarled old age when exit becomes almost inevitable".

2.5 Theoretical Literature

There are basically two broad groups of corporate dividend theories; the dividend relevance group and the dividend irrelevance group.

2.5.1 The Miller-Modigliani Model

This model was formulated by Merton H. Miller and Franco Modigliani and is popularly known as MM model. The MM model states that in a perfect capital market, the value of equity is safe and is unaffected by dividend decisions of the firm. The value of equity is thus unaffected by the splitting of profits between retained earnings for investment and dividend pay-out. One dividend policy is as good as another. Whether the firm declares a dividend or not, it bears no impact on the shareholders' wealth. The MM hypothesis, it must be noted, holds good under the assumption of perfect markets, rational behaviour and perfect certainty. Under perfect markets, the assumption is that the investors behave rationally; perfect certainty prevails leaving no scope for default or bankruptcy, zero tax environments, no transaction costs as well as equal information to all investors at no cost (Modigliani, 1961).

MM model assumed that;

- **Perfect capital market exists:** Modigliani argued that, in a perfect capital market, the investors are rational and information is available to all. There is no cost involved in obtaining any information and, thus, zero transaction costs and floatation cost exists. No investor can outplay the market. Zero tax environments: There is a zero-tax environment meaning that there is no difference in taxation of dividend income or capital gain. An investor does not make a choice simply based on his taxation advantage (Modigliani, 1961).

- **Fixed and deterministic investment policy:** The investment policy of the firm is fixed and deterministic, i.e., predictable in advance. Thus, investment of retained earnings in new investments does not alter the required return of the firm. The investors know beforehand the future earnings of the firm and, hence, they can forecast the future value of the firm. They know with certainty the future dividends and the capital gain that would arise. Thus, there exists no risk for investors regarding their investment in the firm. Thus, $r = k$ always. All earnings are paid out as dividends, only debt and equity are issued, and debt is riskless (Modigliani, 1961).

The author agreed with MM model which stated that the present value of the firm is independent and unaffected by future dividend payments. The firm value is indifferent to the means of additional external financing like debt or equity. Under perfect capital market, the firm easily goes for external financing without incurring transaction costs. This makes the dividend payments independent of firm's financing decision. The model propagates that current dividends and homemade dividends (capital gain) are perceived to be similar in value by shareholders (Arnott, 2013). The argument put forth is as follows: What shareholders benefit as current dividends is compensated by the loss in future capital gains and vice versa? What shareholders lose in the form of current dividends, they benefit as a future capital gain.

The MM model of dividend irrelevance has been criticized on many points:

- Most investors prefer dividend to capital gain or future dividends. When dividends are not paid in immediate period, they are retained by the firms for investment in profitable opportunities. However, the element of risk inherent in such future benefits is further enhanced by prevailing market imperfections. Thus, future earnings and their growth cannot be predicted with certainty; hence, degree and timing of capital gain may become vague and uncertain. Therefore, most of the investors in market prefer current dividends M. future dividends (Monogbe Tunde, 2015).
- Market imperfections such as taxes, information asymmetry, transaction cost and signaling effect affect the dividend policy, which in turn affects the value of the firms as well as its share price in the market.
- Perfect markets do not exist in the real world. They are too idealistic as assumptions. Hence, the whole validity of the MM model is debatable as in real world markets; die dividend payments affect riot only the value of the firms paying dividends but also of the firms that do not pay dividends. Many researches and management surveys have established the significance of the dividends to the investors (Monogbe Tunde, 2015).
- It is assumed in MM model that many a time firms raise external equity to finance their dividend payments. In perfect capital market, cost of raising new equity is the

same as the cost of raising external debt. However, in imperfect capital market, the cast of raising external equity is more than the cost of raising debt due to transaction cost and floatation cost. This adds to the cost of funds. Thus, debt or equity option can bring about a difference in the value of the firm (Troughton, 2012).

- Certain institutions invest in equity stock of the firms that pay stable high dividends. In such cases, no matter what, the firms adopt and continue with their stable dividend policy to attract such clientele of investors. If dividends fluctuate or are retained by the firms, then such clientele of investors abstain from investing in these rims. So, the firms maximize their value by adopting stable dividend policy (Troughton, 2012).
- Dividend payments are made from cash earnings of the firm. Continuous, stable and high dividends send a positive signal to the shareholders. Continuous dividends even under the conditions of low profits keep the shareholders happy and satisfied. They do not become anxious or worried about the performance of the firm. Hence, the market price of the stock is also appreciated (Corporate Finance, 2018). In real world markets, firms understand that dividend payment on continuous basis helps to sustain the market price of their stock.
- The corporate dividend policy can be used effectively as a means of conveying the message of quality in financial performance and future prospects of the company to the existing and potential shareholders. Dividend policy as an information tool has a lower cost than other alternatives available to the firms. He also suggests that

the managers are fully aware of shareholders' preference for current dividends. Hence, they pay or increase dividends to mollify the shareholders. Dividends are partially a tradition and partially a method to allay investors' anxiety (Akerlof, 1970).

- Research also suggests that dividends and capital gain do not have same effect on the shareholder. Sale of shares of a firm may result in investors' feeling of regret and anxiety. However, spending of cash received from dividend payments causes no such regret or anxiety. Hence, shareholders prefer dividend to capital gain. Firms should not assume dividends and capital gain as perfect substitutes (Tversky, 2002).

2.5.2 Market Imperfections

Contrary to the assumptions and arguments of MM model, in real world the markets are imperfect and the firms do follow specific dividend pay-out policies to enhance their value. The dividend pay-outs may differ across industries and time period ranging from high pay-out policy to low payout policy and from regular to variant dividend pay-out policy. However, the selection of dividend policy and its impact on corporate value depends on various market imperfections such as the following:

- **Attitude of Investors towards Risks:** In the imperfect market, the investors have different preference for risk. There may be investors who are risk averse and would not believe in the promised future return by the firm, after investment of retained profits including dividends. They prefer current income to assure liquidity and

minimize their investment risk. Some investors are also skeptical regarding the utilization of firm's free cash flows. The financial statements do not provide enough transparency to investors regarding the utilization of the retained profits and estimation of future earnings. Hence, much emphasis is on current dividends, which are preferred by majority of investors. However, the attitude towards risk and return of investors (individual and institutional) differs and so does their dividend expectation. Dividend requirement of different.

- Investors are different. However, stable and continuous dividend policy is popular with investors at large (Akerlof, 1970).
- **Personal Taxes:** The country tax structure affects the personal choice of investors regarding dividend payments in different countries. The shareholders in India face different tax rates on dividend and capital gain due to differential tax rates. Look at the dividend tax that has been done away with, but simultaneously the government has levied dividend distribution tax (15 percent) that is as good as dividend tax. (Troughton, 2012). The capital gain tax has also been increased from 10 percent to 15 percent for the year 2008-2009. /hen there is substantial increase in securities transaction tax. These tax differentials determine the choice of dividend receipt and capital gain by investors. In 2003, the U.S. government reduced the dividend tax on individual dividend income from 35 percent to 15 percent. This led to a 20 percent increase in dividend payments by non-financial, non-utility, publicly traded corporations following the tax cut. Before the lax cut, there was a continuous

decline in dividend payment for more than two decades. However, post 2003; the number of U.S. firms paying dividends began to increase. Most of these firms initiated regular, recurrent payments rather than one-time special dividends. Several firms that were already paying dividends increased (he regular dividend payments significantly alter the tax cut. The tax impact basically depends upon the type of investor and the tax rate deferral. Distinct preference of shareholder emerges as dividend and capital gains are taxed at different rates. If the tax rate on dividend income is greater than that of capital gain, then shareholders will generally prefer capital gain (Troughton, 2012).

Transaction Costs: In a perfect market, the investors are able to convert their capital gain into 9 dividends without incurring any cost. Transaction costs are incurred while transacting a share, i.e., selling or purchasing it. In imperfect market, the transaction costs exist and are high. Thus, firms benefit by giving dividends to shareholders rather than capital gain (Corporate Finance, 2018). When firms do not pay dividends, the shareholders create homemade dividends by selling off some or all of their shares, i.e., capital gain. The investors' trading costs are high as compared to floatation cost (for the new equity) of the firm. The transaction cost induces clientele effect. Low-income bracket shareholders rely on regular dividends to meet their cash requirement. For example, senior citizens, pension funds and mutual funds are in a low (or zero) tax bracket. Such investors satisfy their current cash income requirement. They prefer high dividend pay-out companies.

- High-income bracket shareholders rely on low dividend paying firms as they are interested to reinvest their dividends for future capital gain. Their current cash needs are fulfilled by their own earnings (Arnott, 2013).

2.5.3 Signaling Theory

The signaling theory proposes that dividend policy can be used as a device to communicate information about a firm's future prospects to investors. Cash dividend announcements convey valuable in formation, which shareholders do not have, about management's assessment of a firm's future profitability thus reducing information irregularity. Investors may therefore use this information in assessing a firm's share price. The intuition underlying this argument is based on the in format ion irregularity between managers and outside investors, where managers have private information about the current and future fortunes of the firm that is not available to outsiders. Dividend policy under this model ii therefore relevant (AI-Kuwari. 2019).

According to the information content of dividends or signalling theory, firms, despite the distortion .if investment decision, to capital gains, may pay dividends to signal their future prospects. Here, managers are thought to have the incentive to communicate this information to the market, Bhanacharya (2009). John and William (2005), and Miller and Rock (2005) argued that information asymmetries between firms and outside shareholders may induce a signalling role for dividends. They show that dividend payments communicate private information in a fully revealing manner. The most important element

in their theory is that firms have to pay out funds regularly. An announcement of dividends increase is taken as good news and accordingly the share price reacts favourably, and vice-versa. Only good-quality firms can send signals to the market through dividends and poor quality firms cannot mimic these because of the dissipative signalling cost (for e.g. transaction cost of external financing, or tax penalty on dividends, distortion of investment decisions). Therefore, a similar reasoning applies to recurrent share buy-backs.

2.5.4 The Clientele Effect

All investors are not similar. Their preferences, including their preference for dividends, differ and, hence, they look for different firms having the dividend policy according to their requirement. Some shareholders prefer high current dividend payments and some prefer high capital gain and some prefer both. Some other shareholders prefer regular and constant dividends. Thus, there exists different clientele for different dividend policies (Troughton, 2012). A firm attracts a body of investors who prefer the payment pattern, degree and stability of dividends provided by the different firms. Different investor groups prefer and agree with different individual dividend policies of different firms. For instance, an investor who prefers continuous and stable dividends as a source of income will hold the equity stock of firms paying constant dividends. Investors preferring capital gain would hold stocks of a growing firm $(r > k)$ as such firms invest their earnings in profitable investment opportunities. As firms alter their policies, the old clientele is replaced by a new clientele. In the end, there is no effect on the firm's value. One clientele of investor is as

good as another; however, investors do not like to constantly switch over their shareholding due to transaction costs. Thus, ultimately all clientele prefers stable dividend policy firms (Biza-Khupe, 2016).

- **Information Content of Dividends:** The shareholders take the alterations in the dividends as a strong signal of the firm's performance and future prospects. However, firms that pay low dividends have better profitable investment opportunities that help them grow. So, low paying strong firms like Microsoft contradict the signaling effect. Much depends on the fact whether the shareholders are able to demarcate and identify poor performance and reinvestment growth prospects (Baker Kent, 2009).
- Information Asymmetry: Information asymmetries exist in imperfect markets. The managers know more about their firms' prospects than do the shareholders. The managers generally do not alter their fixed or past dividend policies. They tend to stick to their regular policies. The dividends are increased only when the management thinks that it will be able to sustain the earnings as forecasted and pay out future increased dividends without any problem. The management decreases dividends only when it thinks that there is no option out Thus, alterations in firm's dividend policy indicate a change in the expectation of the managers regarding their future earnings and growth (Williams, 2008).

2.5.5 Agency Costs and Free Cash Flow Hypothesis

The ownership of a firm is separate from the management. When the interest of the manager contradicts the interest of the owners, there exist agency costs. Differences in managerial and shareholders' priorities have existed for long. In order to reduce agency problems, the management must take decisions that are consistent with the interest of the shareholders (Da Silva, 2014). Agency problem is born out of information asymmetries and managerial incompetence. Agency costs are found to be lower in firms that have high managerial ownership stakes, and in firms having large bloc shareholders that are better able to control the managerial activities. One effective way of reducing agency problem is by paying high and regular dividends. A good dividend policy aligns the interests of shareholders and managers. Dividend policy reduces agency cost as it increases the control of firms by the capital market. Large dividend payments result in reduction in cash flow of the firm which is then forced to raise additional funds from capital market (Baker Kent, 2009). The efficient monitoring of capital market tends to reduce investment activity and excess perquisite consumption of the firm. This way the agency cost associated with ownership and control separation is reduced. Dividend payments also reduce the conflict of shareholders and debt holders. Large dividend payments reduce their conflict of claim priority (Baker Kent, 2009).

- **The Free Cash Flow:** Intelligent managers work in the interest of the shareholders. They tap all investment opportunities that are profitable and would contribute in

enhancing the value of the firm. A firm that has free cash flows should make profitable investment. The free cash flow of the firm should be judicially used. The utilization of the firm's free cash flows should be aligned with the firm's objective of maximizing the shareholders' wealth. Rather, conflict should not arise between the interest of the management and the shareholders. The best alternative is to distribute the free cash flow to the shareholders as dividends. However, if the management fails to increase pay-outs and rather waste firm's free cash flows on unprofitable investments, there tends to be deterioration in the firm's value. When managers cut dividends and simultaneously do not have profitable investment opportunities, the firm's stock price declines. When a firm distributes its free cash flows as dividends to shareholders, its stock price increases (Arnott, 2013).

- **The Bird-in-Hand Argument:** A bird-in-hand is worth two in a bush. This argument aptly applies to dividend signalling effect. Just as a bird-in-hand is worth more than two in a bush, shareholders weigh current dividends more as compared to future capital gain. The common perception is that current dividend receipts act as interest on debt and once committed by the firms continue to grow steadily over the period of time. A current dividend is a sure shot current source of income. It is better than waiting for the share price to increase in future for capital gain. The future share appreciation may or may not happen, and if it does, the degree and level of appreciation is unpredictable. The bird-in-hand principle states that investors desire that firms pay out cash in the form of current dividends, thereby

reducing the uncertainty in future income. Investors are generally risk averse. Dividends received today are less risky than the future value of capital gain (Monogbe & Tunde, 2015). The author agreed with the bird-in-hand argument because it supports the dividend relevance approach.

2.5.6 Tax Preference Theory

Tax preference theory Mates that investors consider, taxes and it plays an important role for personal investment decisions as well as corporate investment decisions. Capital gains are taxed at lower rate and it is taxed when the stock is sold hut cash dividends are taxed at higher rate and it is taxed immediately the company gives dividend to the shareholder. These tax advantages of capital gains over dividends tend to influence investors, who have favourable tax treatment on capital gains, to prefer companies that retain most of their earnings rather than pay them out as dividends, and are willing to pay a premium for low payout companies. Litzenberger and Ramaswamy (2009) in their tax preference theory argued that investors want companies to retain earnings and thus provide returns in the form of lower-taxed capital gains rather than heavily taxed dividend. In other words, low dividend payout ratio lowers the required rate of return (cost of equity) and increases the stock price.

Additionally, capital gains are not paid until an investment is actually sold. Investors can control when capital gains are realized, but they cannot control dividend payments, over which the related company has control. Farrar and Selwyn (2007) tried to explain this

theory, and their position was extended into a market equilibrium framework by Brennan (2000).

Farrar and Selwyn use partial equilibrium analysis, assuming that individuals attempt to maximize their after-tax income. Shareholders have two choices: either to own share in an all equity firm and use homemade leverage or buy shares in a leveraged firm. The first choice is between corporate and homemade leverage, while the second choice is between the firm paying dividends or retaining the earnings so that shareholders can take their income as capital gains.

2.5.7 Share Repurchase

Share repurchase are also used as signals but it transits different information as dividends do. Shares are repurchased by firms when they have no profitable investment opportunity and it shows that earnings will be reduced in near future (Vermaelen, 2001). Jensen and Meckling (1976) states that share repurchase will cause change in capital structure and firm is fully financed by debt and its leverage ratio will increase and also the chances of bankruptcy also increases.

2.5.8 Residual Theory

The residual theory of dividends suggests that dividends represent an earning residual rather than an active decision variable that affects the firm's value. Such a view is consistent with the dividend irrelevance theory put forth by Merton H. Miller and Franco Modigliani

(M & M). Miller and Modigliani (1961) argue that the firm's value is determined solely by the earning power and risk of its assets (investments) and that the manners in which it splits its earnings stream between dividends and internally retained (and reinvested) funds does not affect this value.

2.6 Empirical Literature

The dividend enigma has not only been an enduring issue in finance, it remains unresolved. Almost three decades ago, Black (1976) described it as a "puzzle", and since then an enormous amount of research has occurred trying to solve the dividend puzzle. Many researchers have tried to uncover issues regarding the dividend dynamics and determinants of dividend policy but we still do not have an acceptable explanation for the observed dividend behaviour of firms (Black, 1976; Brealey & Myers, 2005). Brealey and Myers (2005) described dividend policy as one of the top ten most difficult unsolved problems in financial economics. This description is consistent with Black (1976) who stated that, "The harder we look at the dividend picture, the more it seems like a puzzle, with pieces that don't fit together". The enduring nature and extensive range of the debate about dividend policy has spawned a vast majority of literature that grows by the day. Hence, a full review of all debates is not feasible. However, the study aims at adding a conclusion on the matter that whether dividend payout positively or negatively affects firm's performance. The decision about paying dividend starts with firms profits; therefore it seems logical to think profitability as threshold factor and profitability level as one of the most significant variable

in explaining dividend payout decision. This section focused on the thought regarding the impact of different dividend policy on shareholder's value creation and wealth maximization, and profitability. The classical work on dividend policy was that of Lintner (1956). After consulting 28 well established US firms he developed a model for "How managers make dividend decision". His study concluded that dividends pattern of a firm are influenced by its current year earning and past year dividends. Lintner suggests that dividend depends in part on the firm's current earnings and in part on the dividend for the previous year. He finds that major changes in earnings with existing dividend rates are the most important determinants of the firm's dividend policy. He also finds that firms tend to make periodic partial adjustment toward a target payout ratio rather than dramatic changes in payout. Fama and Babiak (1968) support Lintner's argument that managers increase dividends only after they are reasonably sure that they can permanently maintain them at the new level.

Njoroge (2010) studied listed companies from 2001 to 2008 and used linear regression technique with dividend payout as the dependent variable and return on equity, return on assets, growth in assets, as independent variables. The researcher found out that neither return on assets, return on equity nor growth in assets were significant in determining dividend payout ratios. Bitok (2004) studied the effect of dividend policy on the value of the firms quoted at the NSE. The population of interest in the study consisted of all the firms quoted at the NSE for a period of 6 years from 1998 to 2003. The study was facilitated by use of secondary data. The data collected was analyzed using simple linear regression

and correlation analysis. The researcher found out that, on average, there was a significant positive relationship between dividend policy and the value of the firm.

In a study that examines whether divined policy influences firm performance in the Ghana stock exchange, Amidu (2007) used a panel regression equation to meet his objectives. The panel pooled crossed-section regression was used to gain the maximum possible observations. The dependent variables were return on assets and return on equity as the main accounting measures of performance and dividend payout was measured by dividend payout ratio. In his model he controlled size, return on asset, earnings yield, leverage and future asset growth. His findings were that dividend policy affects firm performance especially profitability proxied by the return on assets. The results showed a positive and significant relationship between return on assets, return on equity, growth in sales and dividend policy. This shows that when a firm has a policy to pay dividends, its profitability is influenced.

Muriuki (2010) examined the relationship between dividend policies and share prices for companies quoted at the NSE. He used all 47 listed firms from 2005 to 2009 with the help of muitivariate regression model and concluded that there is a negative relationship between share price and usage of constant payout ratio. Usage of constant amount per share had appositive relationship with share prices.

Nazir, Abdullah and Nawaz (2011) in their study utilised Multi linear regression analysis to examine the effect of dividend policy on share price volatility among financial sector

listed firms in Karachi securities exchange. The findings in this study depicted that there was a significant negative relationship between dividend yield and price volatility us well as between dividend payout and price volatility. The study concluded that dividend policy adopted by firms in the financial sector had a significant influence on share price volatility.

Murekefu and Ouma (2012) used correlation and regression analysis to determine the relationship between dividend payout and firm performance (net profit after tax) in Nigeria. The findings showed a positive relationship between net profit after tax and total asset. Dividend is a significant factor that affects firm's performance as indicated by the regression equation.

Uwuigbe (2012) basically investigates the relationship between the financial performance and dividend payout among listed firms' in Nigeria. The annual reports for the period 2006-2010 were utilized as the main source of data collection for the 50 sampled firms. The regression analysis method was employed as a statistical technique for analysing the data collected. The results show that there is a significant positive association between the performance of firms and the dividend payout of the sampled firms in Nigeria.

Reza Raei (2012) conducts an empirical test of signaling theory. Based on sampling, 88 firms from Tehran Stock Exchange (TSE) were selected and examined during 2003 to 2010, the aim of this study is preparing the evidence on dividend signaling about corporate operating characteristics (return, performance and earning. Therefore, linear regression models were fitted. Results showed that significantly positive correlation exists between

dividend and return. Also, there was a similar dividend relationship between dividend and earning. It means that dividend has information content about return and earning and so, signaling theory was approved about them. Nonetheless, a significant relationship was not funded between dividend and performance proxies (return on assets and market to book ratio) and so signaling theory was not approved.

Baker and Powell (2012) adopted survey technique to take the opinion of Indonesian managers about the factors influencing dividend policy, dividend issues, and explanations for paying dividends. Results of their survey show that Indonesian managers consider stability of earnings and level of current and expected future earnings are the most important determinants of dividend policy.

Murekefu and Ouma (2012) interrogated the relationship between dividend payout and firm performance of firms listed at the Nairobi securities exchange. Data obtained for the study was secondary for it was gotten from the financial statements of the listed firms. The study covered a time range of nine years, from 2002 to 2010. To measure dividend payout, actual amount of cash paid was used while for firm performance, profit after tax was used as proxy. Multiple regressions were performed and the outcome of the study showed that dividend payout ratio directly influenced firm performance and the association was strong. It was concluded that dividend payout ratio is a key predictor of firm performance. The study recommended that managers should dedicate enough time to develop an appropriate dividend policy to boost firm performance.

Adediran and Alade (2013), in a study of dividend policy and corporate performance in Nigeria gathered data of 25 listed companies from the Nigerian Stock Exchange Fact Book, and Annual Reports and Account. The data are analyzed using panel data multiple regression. Their findings reveal that there is a positive significant relationship between dividend policies, corporate profitability.

Dogan and Topal (2014) carried out an investigation in their study to find out whether there existed a relationship between dividend policy and financial performance of firms listed at the Istanbul stock exchange. The study used data of 172 non-financial companies within a time span of four (4) years from 2008 up to 2011. To achieve the objective of the study, the firms were classified into t\\o categories. The first category was made up of those firms which paid cash dividends regularly and group two was composed of those firms which paid cash dividends following irregular trends. The study investigated whether there was significant difference between accounting and market based financial performance between those two groups in relation to dividend policy. Further, an empirical analysis was undertaken using multiple regression and t-test as well as descriptive statistics to determine the outcome. The results of analysis showed that dividend payments had influence on companies' financial performance. Furthermore, the connection between dividend per share within groups and Tobin's q which is a market based performance indicator was direct and statistically significant. Whereas, there was a statistically insignificant relationship between accounting based performance indicators (ROA and ROE) and dividend per share.

In Pakistan. Mudassar (2015) investigated the relationship between dividend payout ratio and profitability of a firm. For this, two main sectors of Pakistan are selected, energy and textile. The study covers a time span of 1996-2008. Firm performance is measured by earning per share (EPS) and return on assets (ROA). The results of logarithmic regression show that no matter what industry is there is a negative impact of dividend payout ratio on next year earnings of a firm.

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M'rabet and Boujjat (2016) in Morocco assessed the relationship between dividend policies and financial performance of selected listed firms in Morocco. Using data from the annual reports of the sampled quoted firms and analysed using panel data regression model, the study reveals that dividend policy is an important factor affecting firm performance and their relationship was also strong and positive which therefore showed that dividend policy was relevant.

Ozuomba, Anichebe and Okoye (2016) in their study sought to find out how share value cum shareholders wealth is affected by dividend policies. Based on survey design that

cover a one-year period with a sample of 10 quoted companies in the Nigeria stock exchange with the use of Anova analysis, this study shows the relevance of dividend and further proves that dividend policies of public limited companies influence the wealth of shareholders in Nigeria.

Ugwuegbe, Ugochukwu, and Ezeaku (2016) studying the effect of board interest (insider ownership) on dividend payout of the Nigerian manufacturing sector for the period of 2009-2015 with the aid of data generated from the annual report of five randomly selected firms from the manufacturing sector in Nigeria economy and analyzed using pooled panel least square model revealed that board interest has a negative and insignificant impact on dividend payout of the firms investigated. The empirical result also indicates that firm size has a positive and significant effect on dividend payout among Nigerian manufacturing firms.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter focuses on the methods, procedures or modalities used to accomplish the objective of this study and also ensured that the results of investigation are dependable, accurate and valid. It presents a careful description of the research design, population and sampling techniques, sources of data analysis and operationalization of variables.

3.2 Research Design

This study adopted a longitudinal research design. A longitudinal research design is one in which the researcher does not have the ability to manipulate the independent variable(s) due to the fact that they are historical in nature as such the researcher cannot manipulate them and they were collected over a period of time (Agbonifoh & Yomere, 2001). The independent variables in this study are Leverage, Liquidity, Firm Size, and Firm age, while the dependent variable is firm performance proxy by Return on Assets (ROA). Values of these variables were obtained for the period under investigation without any attempt by the researcher to manipulate them.

3.3 Population of the Study

The population of this study considered of all the manufacturing firms quoted in the Nigeria Stock Exchange at 31st December, 2024. The choice was justified given that this sector is among the most regulated and most active in the stock market using the index of volume of shares traded as at the study period.

3.4 The Sample of the Study

The Taro Yamane formular of 1967 and filtering method was adopted to determine the sample of the study. The Yamani formula is given as

$$n = \frac{N}{(1 + N(e)^2)}$$

Where:

n = signifies the sample size

N = signifies the population under study

e = signifies the margin error (it could be 0.10, 0.05 or 0.01)

The filtering method was adopted to eliminate firms that does not have or published ROA, LEV, LIQ, SIZE, AGE, from 2016- 2024 were removed. Therefore, 10 firms meet these criteria, thus becomes (he sample of the study.

3.5 Sources of Data

The study relied basically on secondary data. This implies that such data are readily and easily accessible. The data were sourced from the Nigeria Stock Exchange Annual publication.

3.6 Theoretical Framework

Bhattacharya (2009), Miller and Rock (2005) and Bali (2013) suggest that dividend signal the market about the firm's performance. This is called the signaling theory which states that dividend helps to reduce information asymmetries between the manager and the shareholder. Lintner (1956) developed the partial adjustment model to explain the change in dividends each year. The assumption of this model is that managers will try to pa\ an amount of dividend that is a most favourable percentage of the profit made given by the equation,

$$D_{it}^{*} = \alpha_i E_{it} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots 3.1$$

Where D_{it}^{*} is the target level dividend for firm i year t, α_i is the optimal amount of dividend as a percentage of the profit for firm i. E_{it} is a vector of profit indicator for firm i at period t. The value of α lies between 0 and 1 since companies usually won't pay more dividends than their profits. When the profit changes the actual amount of dividend paid differs from the optimal amount that follows out of equation 3.1. To compensate for this difference, the

company will gradually adjust the dividends, as seen in the next equation 3.2 called the Lintner full adjustment model:

$$D_{it} - D_{it(t-1)} = \left(D_{it}^{*} - D_{it(t-1)}\right) \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots 3.2$$

Thus;

$$D_{it} - D_{it(t-1)} = \alpha_i + C_i\left(D_{it}^{*} - D_{it(t-1)}\right) + U_i \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots 3.3$$

Where D_{it}^{*} is the desired dividend payment during period 't'. D_{it} is actual dividend payment during period 't', α_i is target payout ratio, E_{it} is earnings of firm 'I' during period 't', α_i is a constant related to dividend growth C_i is partial adjustment factor, U_{it} is error term. The positive value of constant 'a' shows that firm's avoid dividend cuts and try to increase dividend paying ability at a steady rate.

This model can further be simplified in the form of a multiple regression equation.

$$D_{it} = a_i + \alpha_i C_i E_{it} + (1 - C_i) D_{it(t-1)} + U_i \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots 3.4$$

The Lintner model provides three important conclusions:

(1) Stable dividends with steady increase whenever possible

(2) Set a suitable target payout ratio.

(3) If possible, avert dividend cuts

Volatility of net income, managers' attitude towards future possibilities and importance given to stable dividend rates are factors that affect the reaction coefficient 'C'. Corporations with stable net income are more likely to select a high reaction coefficient and instantly respond to variations in net income. Firms with large changes in their net income choose their reaction coefficient on the basis of the value they attach to stable dividend rates and their willingness to maintain tis rate. Corporations interested in dividend stability have to choose low reaction coefficients.

Raei, Moradi and Eskander (2012) tested three models using three proxies of signaling one by one and taking size of the firm and leverage as the control variables. The following model explains the relationship between dividend and return:

$$Div_{it} = \alpha + \beta_1 SIGNAL_{it} + \beta_2 LEVERAGE_{it} + \beta_3 \Delta Y_{it} + \varepsilon_{it} \dots\dots\dots\dots\dots\dots 3.5$$

The three proxies used for signaling (SIGNAL) by the firms are: returns, net income and earnings. The variables used are annual returns during the year t; for performance; ROA (return on asset) for year t, MB (market to book value of equity) for period it; for earnings: NI (net income) for period it; Div for total amount of dividends for year t; for SIZE: natural logarithm of total assets for year t.

3.7 Model Specification

The model specified in this study demonstrates that dividend payout signals the market about the firm's performance. Therefore this study derives from the signaling theory of

dividend policy. This study undertook a specification of an economic model which helped to empirically establish the impact of dividend payout on firm performance in Nigeria and we adapted the signaling model in equation 3.5 as used by Murekefu and Ouma (2012) with little modifications to suit our needs. We are using two models (Accounting and Market Based Model). The functional form of the model is given as:

$$ROA_{it} = f(LEV, LIQ, SIZE, AGE) \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots 3.6$$

The estimated version of the model is given as:

$$ROA_{it} = \alpha_{it} + \beta_1 LEV_{it} + \beta_2 LIQ_{it} + \beta_3 SIZE_{it} + \beta_4 AGE_{it} + \mu \ldots\ldots\ldots\ldots\ldots\ldots 3.7$$

3.8 Method of Data Analysis

This study used panel data generated from the secondary source. The data collected from the sampled firms and collated in panel data form was processed using Econometrics View (E-view 7.0) for windows econometric packages. Descriptive statistics was used to describe the basic features of the data in the study by providing simple summaries about the sample and their measures. However, correlation analysis was used to measure the linear association between one variable to another. By conducting correlation analysis, this study was able to identify the strength of the relationship between each independent variable and the dependent variable.

The Panel Regression technique will be used to ascertain the relationship between dividend payout and firm performance. Panel data models are powerful research instruments that

take the effects of cross-sectional data into account. This may help us estimate the appropriate empirical model (Baltagi. 2011). We use general models for panel data that make it possible to produce an empirical estimate of the relationship between dividend payout (independent) and firm-specific (dependent) variable with flexibility. The panel data suggest the use of fixed or random effects that are able to control for unobserved firm and/or year effects, consistent with Green (2013). To estimate the mentioned model, the study used Hausman (1978) test to determine Fixed Effects Model (FEM), Random Effects Model (RLM).

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter deals with the presentation and analysis of the empirical results obtained from the estimation exercise. This study establishes the effect and relationship between dividend payout and firm performance among selected quoted firms in Nigeria. In order to realize the objective of the study, two general methods are used in the empirical analysis of data. The preliminary analysis (which comprises of descriptive and correlation analysis) of the data is first conducted to provide background analysis on the data that will generate the initial characterization of the data used in the study. Thereafter, the multiple regressions were conducted using the ordinary least square (OLS) method. The data were analyzed using econometric software.

4.2 Presentation and Analysis of Results

4.2.1 Descriptive Statistics on Variables

Table 4.1: Descriptive Statistics

Statistic	LEVERAGE	SIZE	ROA	AGE	LIQ
Mean	2.917442	8.192935	0.029521	19.46914	1.040246
Maximum	0.877091	8.850000	0.016771	15.00000	0.455513
Minimum	15.47000	9.510000	0.329540	51.00000	10.54450
Std. Dev.	0.030000	4.860386	-0.032389	7.000000	0.114557
Skewness	3.328981	1.501174	0.049450	12.27099	1.992125
Kurtosis	1.567420	-1.314558	4.005410	1.281060	3.531866
Jarque-Bera	47.53143	23.34137	1387.523	22.84037	641.5098
Probability	0.000000	0.000009	0.000000	0.000011	0.000000
Obs	81	81	81	81	81

Source: Author's computation from the underlying data (2025)

The table 4.1 above presents the results for the descriptive statistics for all variables Return on Asset, Leverage, Liquidity, Firm Size and Firm Listing Age (ROA, LEVERAGE, LIQ, SIZE and AGE). As observed, ROA has a value of 0.029billion with a maximum and minimum value of 0.016million and 0.32 million respectively. The standard deviation - 0.03million is very low and suggests that ROA over the years exhibits low deviation from the mean. The result is so because we are studying different banks companies in Nigeria. For the independent variables, the results indicate that the mean values for leverage (LEVERAGE), firm size (SIZE), Liquidity (LIQ) and firm age (AGE) are 2.917, 8.19, 19.46, and 1.04, million respectively. The standard deviation for LEVERAGE, SIZE, AGE and LIQ are 0.03, 4.86, 7.00 and 0.11 million respectively. This shows that the discrepancies among most of the variables are very large. This suggests that the variables over the years exhibit high deviation from the means. When the Kurtosis is equal to 3, it showed that the distribution is a normal distribution. From the results above ROA and LIQ are greater than 3 that is they are Leptokurtic or Platykurtic (i.e <or > 3). All the variables are skewed to the right or have a positive skewness. All of the variables Jarque-Bera are greater than (>5) and significant, this also shows non-normality of these variables distribution.

Table 4.2: Correlation analysis

Correlation Probability	ROA	LEVERAGE	SIZE	AGE	LIQ
ROA	1.000000 -----				
LEVERAGE	-0.182996 0.1020	1.000000 -----			
SIZE	-0.450597 0.0000	0.153233 0.1720	1.000000 -----		
AGE	0.030017 0.7902	0.341426 0.0018	-0.311110 0.0047	1.000000 -----	
LIQ	0.261485 0.0184	-0.242813 0.0290	-0.604074 0.0000	0.576360 0.0000	1.000000 -----

Table 4.2 shows the co-efficient of correlation of all the variables examined. However, of particular interest to the study is the correlation between the dependent variable (ROA) and the explanatory variables. As observed from the correlation analysis, a negative relationship exist between (r= -0.182996) and leverage. The coefficient is low and the direction of correlation suggests that increase in LEVERAGE may be associated with decrease in ROA. A positive association is observed between ROA and AGE and LIQ (r=0.030017 and (r=0.261485) respectively, the coefficient is low and this implies that increase in AGE and LIQ may lead to upward movement in ROA. A negative correlation exist between ROA and SIZE (r= -0.45059), the coefficient is very low indicating that an decrease in SIZE may be associated with low decrease in ROA. However, correlation analysis does not necessarily imply the existence of functional relationship but a mere association.

The analysis of the independent variables shows that some variables show a negative relationship among themselves and positive too. The analysis of the correlation coefficient between the independent variables is low. This suggests that there is no multicollinearity in the model.

Table 4.3: Pooled regression result (Fixed Effect)

Variables	Coefficients	T-Ratio
C	0.162513	4.372464
LEVERAGE	-0.001042	-0.533949
LIQ	0.000764	0.178221
SIZE	-0.014953	-3.568315
AGE	-0.000423	-0.672495
	$R^2 = 0.222266$	

In the table above 4.3 reveal some attracting investigation about the relationship between dividend and performance of quoted firm in Nigeria. The coefficient of variation that the R-Squared value in the model which is 0.222266 is quite low and shows that approximately 22% of the systematic variations in ROA are explained by the five explanatory variables. This also shows that more than 78% of the variables are important. Thus, the model has a fair explanatory ability. The result again reveals the relevance of the individual coefficient of the explanatory variables is performed considering their signs and their level of significance. The result shows that SIZE pass the t-statistic test. The rest variables failed the t-statistics. The individual sign also show some important points, LEVERAGE, SIZE and AGE were negative related to the dependent variable, meaning that a percentage

increase in the following variables will also lead to percentage decrease in the dependent variable, while LIQ was positive related to the dependent variable.

Panel Data Technique Estimation

The OLS estimates reported above are not quite amenable for policy directions since the estimates inherently possess endogeneity issues. To avoid these challenges, the panel data analysis technique is employed in re-estimating the relationships. As stated in the previous sections, the standard test for the Hausman test is reported in table 4.4 below. In the result the Hausman test (Chi-Square statistics) for the random argument is 16.94, which is high than the critical chi-square of 5. Thus, we can reject the null hypothesis that unobserved firm specific heterogeneity are uncorrelated with regressors, and so we would be concentrating our analysis on the estimates provided by the fixed effect model

Table 4.4: Summary of Hausman Test for Cross-section Random Effects

HAUSMAN TEST RESULT

		Chi-sq.	
Test Summary	Chi-sq.	d.f.	Prob.
Cross-section random	16.937233	4	0.0020

Table 4.5: Cross-section Fixed Effect

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.665612	0.190229	3.499003	0.0008
LEVERAGE	-0.001255	0.002640	-0.475371	0.6360
LIQ	-0.013910	0.006265	-2.220305	0.0297
SIZE	-0.097683	0.026220	-3.725458	0.0004
AGE	0.009366	0.002498	3.749868	0.0004

Effects Specification			
Cross-section fixed (dummy variables)			
R-squared	0.450784	Mean dependent var	0.029521
Adjusted R-squared	0.353863	S.D. dependent var	0.049450
S.E. of regression	0.039749	Akaike info criterion	-3.466400
Sum squared resid	0.107441	Schwarz criterion	-3.082106
Log likelihood	153.3892	Hannan-Quinn criter.	-3.312216
F-statistic	4.651069	Durbin-Watson stat	2.197879
Prob(F-statistic)	0.000018		

Source: Author's computation Using Econometric software, 2025

According to the result table 4.5 the cross-section Fixed effect reveals a better result than the random effect result, the results reveals that the R-Squared and the Adjusted was 0.450784 and 0.353863 respectively is on the low side. The individual coefficient test traces out the particulars impact of each explanatory variable on ROA.

The D.W statistic value 2.19 (approximately 2) has improved over the OLS output and reveals that the model is free of the presence of serial correlation; we therefore conclude that the model has a satisfactory goodness and the parameters estimated are unbiased and consistence. They can be relied on for policy direction.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter deals with the findings of the research, the conclusion as well as specific recommendations on the subject matter. It also re-emphasized the policy measures suggested to examine the relationship between dividend policy and performance quoted deposit money banks listed on the Nigeria Stock Exchange.

5.2 Summary of Findings

This study examines the relationship between dividend policy and performance quoted deposit money banks listed on the Nigeria Stock Exchange. Adopting, panel data methodology, it analyzes the relationships between the dependent variable- Return on Asset (ROA) and the independent variables- Leverage (LEVERAGE), Liquidity (LIQ), Firm Size (SIZE) and firm Age (AGE) for a nine year period (2016-2024).

The major findings are summarized below:

The main internal relationship between assets size and dividend policy of quoted firms listed on the floor of the Nigeria stock market:

- Leverage (LEVERAGE) – this exerts a negative relationship with performance ROA. This simply implies that the ratio of debt to equity was not favourable in term

of determining the value of the firm.

- Firm Age (AGE) – this also exerts a negative and a strong relationship with performance ROA. This implies that the age of the firm does not really determine the impact of the firm.
- Return on Assets (ROA) – positively and not statistically significant to dividend policy.

5.3 Conclusion

In line with our findings, it appears that the most significant factor in determining the dividend pay-out of firms quoted on the floor of the Nigeria stock market is the size of the assets. Also, the average earnings per share or average earnings is still one of the most significant determinant of average dividend payment, we also confirm that current dividend payment and earning per share are significant in explaining the observed differential share market prices of quoted firms in Nigeria. However, recent data reveal that the magnitude of the impact of earnings or earning per share is now greater than that of current dividend payment which used to be the most significant as reported in previous studies. We therefore hypothesizes that attractive investment opportunity, profitable assets that yield returns will improve shareholders wealth.

5.4 Recommendations

In relation to our findings, the following recommendations are suggested:

The findings made in the study give impetus for the following recommendations which are useful to both the existing and potential investors.

- The findings suggest that firm's total assets (fixed and current) should be maximized to help facilitate appropriate earnings so as to increase shareholders wealth without any deception of increased income.
- Since firms which are more profitable tend to pay higher dividend, we suggest that this dividend should be retained for a better investment opportunity.
- Return on assets was not too statistically significant; we suggest that idle assets for the firm should be active to boost the various returns of firms quoted.

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APPENDIX

Dependent Variable: ROA
Method: Panel Least Squares
Date: 11/10/25 Time: 15:24
Sample: 2016 2024
Periods included: 9
Cross-sections included: 9
Total panel (balanced) observations: 81

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.162513	0.037167	4.372464	0.0000
LEVERAGE	-0.001042	0.001951	-0.533949	0.5949
LIQ	0.000764	0.004285	0.178221	0.8590
SIZE	-0.014953	0.004190	-3.568315	0.0006
AGE	-0.000423	0.000629	-0.672495	0.5033

R-squared	0.222266	Mean dependent var	0.029521
Adjusted R-squared	0.181332	S.D. dependent var	0.049450
S.E. of regression	0.044743	Akaike info criterion	-3.316038
Sum squared resid	0.152145	Schwarz criterion	-3.168232
Log likelihood	139.2995	Hannan-Quinn criter.	-3.256736
F-statistic	5.429933	Durbin-Watson stat	1.577806
Prob(F-statistic)	0.000671		

Dependent Variable: ROA
Method: Panel Least Squares
Date: 11/10/25 Time: 15:27
Sample: 2016 2024
Periods included: 9
Cross-sections included: 9
Total panel (balanced) observations: 81

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.665612	0.190229	3.499003	0.0008
LEVERAGE	-0.001255	0.002640	-0.475371	0.6360
LIQ	-0.013910	0.006265	-2.220305	0.0297
SIZE	-0.097683	0.026220	-3.725458	0.0004
AGE	0.009366	0.002498	3.749868	0.0004

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.450784	Mean dependent var	0.029521
Adjusted R-squared	0.353863	S.D. dependent var	0.049450
S.E. of regression	0.039749	Akaike info criterion	-3.466400
Sum squared resid	0.107441	Schwarz criterion	-3.082106
Log likelihood	153.3892	Hannan-Quinn criter.	-3.312216
F-statistic	4.651069	Durbin-Watson stat	2.197879
Prob(F-statistic)	0.000018		

Dependent Variable: ROA
Method: Panel EGLS (Cross-section random effects)
Date: 11/10/25 Time: 15:27
Sample: 2016 2024
Periods included: 9
Cross-sections included: 9
Total panel (balanced) observations: 81
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.155095	0.048239	3.215134	0.0019
LEVERAGE	-0.001358	0.002128	-0.638326	0.5252
LIQ	0.001141	0.004193	0.272167	0.7862
SIZE	-0.014655	0.005411	-2.708201	0.0084
AGE	-0.000140	0.000750	-0.187244	0.8520

Effects Specification		
	S.D.	Rho
Cross-section random	0.016342	0.1446
Idiosyncratic random	0.039749	0.8554

Weighted Statistics

R-squared	0.130805	Mean dependent var	0.018592
Adjusted R-squared	0.085058	S.D. dependent var	0.044954
S.E. of regression	0.043000	Sum squared resid	0.140522
F-statistic	2.859314	Durbin-Watson stat	1.695505
Prob(F-statistic)	0.029005		

Unweighted Statistics

R-squared	0.216829	Mean dependent var	0.029521
Sum squared resid	0.153208	Durbin-Watson stat	1.555108

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	16.937233	4	0.0020

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
LEVERAGE	-0.001255	-0.001358	0.000002	0.9472
LIQ	-0.013910	0.001141	0.000022	0.0012
SIZE	-0.097683	-0.014655	0.000658	0.0012
AGE	0.009366	-0.000140	0.000006	0.0001

Cross-section random effects test equation:
Dependent Variable: ROA
Method: Panel Least Squares
Date: 11/10/25 Time: 15:29
Sample: 2016 2024
Periods included: 9
Cross-sections included: 9
Total panel (balanced) observations: 81

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.665612	0.190229	3.499003	0.0008
LEVERAGE	-0.001255	0.002640	-0.475371	0.6360
LIQ	-0.013910	0.006265	-2.220305	0.0297
SIZE	-0.097683	0.026220	-3.725458	0.0004
AGE	0.009366	0.002498	3.749868	0.0004

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.450784	Mean dependent var	0.029521
Adjusted R-squared	0.353863	S.D. dependent var	0.049450
S.E. of regression	0.039749	Akaike info criterion	-3.466400
Sum squared resid	0.107441	Schwarz criterion	-3.082106
Log likelihood	153.3892	Hannan-Quinn criter.	-3.312216
F-statistic	4.651069	Durbin-Watson stat	2.197879
Prob(F-statistic)	0.000018		

	LEVERAGE	SIZE	ROA	AGE	LIQ
Mean	2.917442	8.192935	0.029521	19.46914	1.040246
Median	0.877091	8.850000	0.016771	15.00000	0.455513
Maximum	15.47000	9.510000	0.329540	51.00000	10.54450
Minimum	0.030000	4.860386	-0.032389	7.000000	0.114557
Std. Dev.	3.328981	1.501174	0.049450	12.27099	1.992125
Skewness	1.567420	-1.314558	4.005410	1.281060	3.531866
Kurtosis	5.063046	3.060898	21.62645	3.450618	14.83979
Jarque-Bera	47.53143	23.34137	1387.523	22.84037	641.5098
Probability	0.000000	0.000009	0.000000	0.000011	0.000000
Sum	236.3128	663.6278	2.391218	1577.000	84.25993
Sum Sq. Dev.	886.5691	180.2818	0.195626	12046.17	317.4849
Observations	81	81	81	81	81