DIVIDEND POLICY AND FIRM PERFORMANCE IN NIGERIA

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A RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF FINANCE, FACULTY OF MANAGEMENT SCIENCES, UNIVERSITY OF BENIN, BENIN CITY.

IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE BACHELOR OF SCIENCE (B.Sc.), DEGREE IN FINANCE.

FEBRUARY, 2025.

DECLARATION

I hereby declare that this work titled "Dividend Policy and Firm Performance in Nigeria", was done by me under the supervisor of Dr. Hussein Momoh of the Department of Finance, University of Benin, Nigeria. The information gathered from literatures has been duly acknowledged in the text and a list of reference provided. No part of this work was presented elsewhere for award of any certificate.

I take the sole responsibility of any errors therein.

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Chukwuemeka UBAWUIKE
(*Project Student)*

Date:_____

CERTIFICATION

This is to certify that this work titled: "Dividend Policy and Firm Performance in Nigeria", by Chukwuemeka UBAWUIKE, MGS1813744 meets the regulations governing the award of the Degree of Bachelor of Science (B.Sc.) Degree in Finance in University of Benin, Nigeria, and its approved for its contribution to knowledge and literary presentation.

DR. H. MOMOH **(Project Supervisor)**	**DATE**
DR. O. AIGBOVO **(Project Coordinator)**	**DATE**
DR. O.G. OMORUNKUWA **(Head of Department)**	**DATE**

DEDICATION

This project is dedicated to the Almighty God who has been my guiding light and source of strength throughout this research journey, I am grateful for His wisdom and protection.

I also dedicate this research to my lovely and caring family who have been my rock and source of inspiration. Your unwavering support, encouragement and patience have meant the world to me.

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To the people of Nigeria who have been the focus of this research, may this study contribute to the promotion of financial inclusion and economic growth in our great Nation.

Lastly, I want to appreciate myself for the dedication and perseverance, the journey has not been easy, but am grateful for scaling through.

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ABSTRACT

This study investigates the determinants of dividend payout in the Nigeria Banking Sector in Nigeria for the period 2015 to 2019. The rationale for the study was based on the realization that rapid economic growth, among others, depends on the robust activities of the banking sector of the economy. Thus, the ordinary least squared econometric technique (OLS) was employed in the analysis of the data; and the empirical findings showed that A positive correlation exists between the ROE, ROA and EPS as performance measures. Thus, an increase in one of them invariably and simultaneously leads to the achievement of the other performance measure; current dividend payout and past dividend payout have a positive and significant influence in the determination of ROE and ROA. In the case of EPS, current dividend payout has a positive and significant influence while that of past dividend is weak; growth opportunity has a positive and significant influence in the performance of firms reflected in the three measures of ROE, ROA and EPS, with the influence on ROE and EPS overwhelming; leverage (ratio of total debt to total capital of firm) has a negative and significant impact on firm performance using ROA, while its influence on ROE and EPS is positive but insignificant; firm's size has a positive and significant impact in the determination of ROE, while the influence it has on ROA and EPS is negative and significant, and increased cash flow for firm tends to stimulate higher performance as the relationship between cash flow and firm performance is positive (though insignificant). The study recommends that financial managers should institute sound, coherent and efficient dividend policies such that will enable them determine the right dividend policy that will enhance firms' performance in Nigeria, and appropriate firm disclosure with respect to dividend payout and dividend per share is needed to guard the investing public in making the right investment choices in listed firms.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Dividend policy is one of the fundamental financial decisions which corporate firms have to make on continuous bases. This involves the determination of the proportion of earnings to retain and the proportion to distribute to shareholders (Baker & Powell, 2011). This concern has prompted many studies on dividend policy, which focused on the nature of dividends and such areas as the relevance or irrelevance of dividend policy to the value of a firm; theories and the determinants of dividend yield and dividend payout rate. Despite the extensive debate and research, the actual motivation for paying dividends remains a puzzle (Baker & Powell, 2011).

The need to receive dividend forms part of the primary motive why shareholders buy shares. In signing-up for a firm's shares, investors always take into consideration a lot of factors such as the dividend track, record of the firm, the stock price at the floor, profile of Board of Directors as well as nature of firm's investment (Onali, 2019). As a result, management tries to command a fair price for her stocks, while ensuring prompt payment of dividend. As the earnings record of a company improves, increase in cash dividend is expected to follow. The amount of dividend received by shareholders will depends greatly on the dividend policy of such organization. Onali (2019). Dividend policy implies the payout policy that management adopts in

deciding the pattern of cash distribution to shareholders over time. It indicates the share of company's earnings that are paid out to investors in cash. (Huda & Farah, 2011).

The study of dividend policy is increasingly becoming interesting for several reasons. First, it affects the capital structure of the firm and also changes the firm's stock value (Nikolaos, 2015). Secondly, announcement of dividend signals information to investors about the firm's efficiency in terms of profitability, liquidity and investment opportunity (Alli, Khan & Ramirez, 2018). Thirdly, through cash dividend policy, managers reduce principal-agent relationship costs (Brigham & Gapenski, 2016).

Since the pioneering work of Miller & Modigliani (1958) in their seminal article, series of empirical and theoretical research in dividend policy have emerged and increased tremendously, some relaxing the assumptions of the authors and offering theories and building models to guide managers in formulating their dividend policy decisions. However, empirical evidences from the studies of (Kanwal & Sujata 2018), Allen & Michaely, 2014; Litzenberger & Ramaswamy (2019), Alli et al (2018), Lyold, Jahara & Page (2015), Keown, Martin, Petty & Scot, (2012), Nikolaos (2015), Baker & Wangler (2012), some of these researchers suggest that increase in dividend payout increases the firm's market value; and others posited that increase in dividend payout decreases the firm's value, while some argue that dividend policy does not affect the market value of the firm.

In spite of the continuous and increasing theoretical and empirical debate on dividend policy, there is still no generally accepted standard on how firms actually pay-out dividend to shareholders at a given time period. Investors usually decide on committing their funds in projects for two main objectives: profit maximization and shareholders' wealth maximization, both of which form the bedrock of firms' going-concern status, i.e. survival. (Gill, Biger & Tibrewala, 2010).

Appropriation of a company's profit is a sensitive function in financial management, most especially because of the need to maintain optimality in the allocation of profit between the shareholders (i.e. dividend) and the company itself (retained earnings) (Uwuigbe, Jafaru & Ajayi, 2012). Dividend policy 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 (Uwuigbe, et al. 2012). Shareholders desire adequate returns on their investments to ensure continued loyalty to the business and, at the same time, the company requires to plough back adequate profit to increase the capital base that would translate into increased production, sales, profitability, etc. all of which encapsulated in organizational growth. The idea of dividend is that the investors would not want any dividend less than the expected except they have the conviction that the investment to which the retained earnings are committed would yield returns over and above what they could be opportune to elsewhere. (Ramadan, 2013).

Uwuigbe, et al (2012) also assert that while several prior empirical studies from developed economies have shed light on the relationship between firm performance and dividend payout, the same is not true in developing economies like Nigeria. Therefore, this study aimed at determining the impact of dividend policy on firm performance in the Nigerian banking sector.

1.2 Statement of the Research Problem

The importance of dividend policy as one of the determinants of a firm's economic performance has for long been recognized by developing economies (Oyejide, 2016). In Nigeria, studies on dividend policy attempted to highlight the dividend policy pursued by Nigerian firms during the period of indigenization. These studies fall short of utilizing the conventional dividend models in their investigation. Subsequently, studies such as Oyejide (2016), Izedonmi & Eriki, (2010) and Adelegan, (2011 and 2012) have tested the application of Lintner's model and the modified Lintner-Britain model as adopted by Charitou and Vafeas (2008), in an attempt to explain the dividend payout of Nigerian firms at different periods. Most of these studies however, recognized the dynamic nature of the Nigerian economy and the need for further research in order to validate the conclusion that emanated from the studies.

The Nigeria financial sector as an engine of economic development has not witnessed substantial research studies on its dividend policy. This study therefore develops an empirical basis that will reveal the growth pattern and the determinants of dividend

policy on firm performance in Nigerian banking sector. This is expected to provide useful explanation on the dividend policy of in the Nigeria banking sector based on the explanatory variables identified from prior studies and legal considerations. Legally, dividend decisions in Nigeria are at the decision of the directors, there are of course constraints that limit the directors. Some of the constraints are imposed by legal rules while others are imposed by financial factors. The level of influence of these constraints and factors will be evaluated to provide a guide to board of directors in exercising their discretion in respect of making sound dividend decision.

1.3 Research Questions

In line with the above, the following research questions have been raised to guide the study;

1. What is relationship between profit after tax, shareholders fund, liquidity, firm size and dividend payout rate in the Nigeria banking sector?
2. To what extent does profit after tax, shareholders fund, liquidity and firm size impact on the dividend payout in the banking sector?

1.4 Objectives of the Study

The main objective of this study is to examine the determinants of dividend payout in the Nigeria Banking Sector. Other specific objectives are to;

1. examine the relationship between profit after tax, shareholders fund, liquidity, firm size and dividend payout rate in the Nigeria banking sector.

2. ascertain the extent to which profit after tax, shareholders fund, liquidity, firm size and dividend payout impact on the performance of the banking sector.

1.5 Research Hypotheses

In line with the questions raised and the objectives of the study, the following hypotheses have been formulated in null form;

H_{01}: There is no significant relationship between profit after tax, shareholders fund, liquidity, firm size and dividend payout in the Nigeria banking sector.

H_{02}: There is no relationship between dividend payout and organization performance in Nigeria banking sector.

1.6 Significance of the Study

Given the background to study, this research aimed to investigate the impact of dividend policy on firm performance in Nigeria quoted banks. The under listed stakeholders will benefit from this study:

1. Shareholders have different investment objectives and the study helps them understand whether to expect immediate or long-term returns from their investment portfolios if they invested in any of the companies under study. The Stock brokers and Stock agents whose investment advisory services are of due importance to the investors will benefit from the study.
2. This study will help the companies that may want to adapt their dividend policy to the recommendations generated based on the relationship that

exists between dividend policy and firm performance. The companies can use the findings as a platform to base their dividend policies in meeting both corporate and shareholder interests.

3. Investors should value the result of this study when making decisions on stock investment and portfolio management. As it will enhance investors' objectives concerning dividend and performance.
4. This enables management to understand what must be done in order to act in the best interest of shareholders in choosing dividend policies that will benefit and maximize their wealth. Likewise, financial managers can use the results of this study to develop a dividend policy that will determine the proportion of profits to retain in business and the proportion to distribute as dividends to shareholders in an attempt to maximize shareholders' wealth.
5. The study will also be of immense benefit to future researchers as it will aid their research study on the approaches of various dividend payout practices that affect firms' financial performance.

1.7 Scope of the Study

This study seeks to examine the impact of dividend policy on firm performance in the Nigeria quoted banks. The study restrict itself to 5 banks trading on the floor of the Nigerian Stock Exchange (NSE) for the period of 5 years (2015-2019).

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Dividends signify the distribution of a company's after tax earnings to shareholders with the residual retained earnings. The payment of dividends has important implications for financing and investment decision of a firm as well as a company's share price. The dividend decisions have been a debated in the academic community. Miller & Modigliani (2011) argue that in the presence of perfect capital markets, the dividend decision has no effect on the firm value and is, thus, irrelevant. This view is contrary to the explanations offered by the traditional school also called the rightist that a given amount of dividends has an impact on stock prices as well as retained earnings (Graham & Dodd, 2013; Gordon, 2009; Walter, 2015). Following the work of Miller & Modigliani (1961), various explanations have been offered for the relevance of dividends in the literature. Gordon (2012) and Lintner (2013) argued that under condition of uncertainties, investors favour a certain dividend income over an uncertain capital gain income. Investors being risk averters prefer near dividends to future dividends. This argument of dividend relevance under uncertainty is called bird-in-the-hand argument (Lintner, 2013).

According to Fama & French (2014), Grullon, Michaely & Swaminathan, (2012), and DeAngelo & DeAngelo (2016), explains that for dividends that rely implicitly or

explicitly on the trade-off between the advantages (e.g., flotation cost savings) and the costs of retention (e.g., agency costs of free cash flow), the trade-off between retention and distribution evolves over time as profits accumulate and investment opportunities decline, so that paying dividends becomes increasingly desirable as firms mature (DeAngelo, DeAngelo & Stultz, 2017).

2.2 Conceptual Issues

The concept of dividend policy has been defined by Bierman (2011) as an appropriation of profits to shareholders after deducting tax and fixed interest obligations on debt capital (Uwuigbe, Jafaru & Ajayi, 2012).

2.2.1 Dividend Policy

Olimalade, Ojo & Adewumi (2017), posits that dividend payout policy is a cash flow that is accrue to equity investors. That is a form of return to shareholders on their investment, and the aim is to increase their self-confidence in the future of the company in which they have invested. Dividends are compensatory dispersal to equity shareholders for both time and investment risks undertaken (Uwuigbe, et al 2012). Such distributions are usually net of tax and obligatory payments under debt capital and they represent a reduction of cash assets of the company (Lipson, Maquieira & Megginson, 2018).

According to Razeff (2015), dividend payout policy is that portion of a company's net earnings which the directors recommend to be distributed to shareholders in percentage to their shareholdings in the company. It is usually expressed as a percentage of nominal value of the company's ordinary share capital or as a fixed amount per share. 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 (Adefila, Oladipo, & Adeoti, 2013).

Dividend policy is a major factor of stock return to shareholders (Zakaria, Muhammad & Zulkifli 2012). Jose and Stevens, (2009) posits that dividend payout can provide a signal to the investors that the company is complying with good corporate governance practices. The dividend payout decisions of firms are the primary element of corporate finance policy (Uwuigbe, et al. 2012). Nissim & Ziv (2017) sees dividend policy as the regulations and guidelines that a company uses to decide to make dividend payments to shareholders. A number of theories have been proposed on dividend payout, retained earnings trade-off and the contended effect of dividend payout on stock values (DeAngelo, DeAngelo & Stulz, 2016; Kishore, 2014). Therefore, all the dividend theories bother on whether dividend is relevant or irrelevant in the valuation of firms' stocks.

In Lintner model (2011) which is based on stylized yield of the specific characteristics of a 'sticky of dividend'. He found that firms are reluctant to decrease

dividends since this could lead investors to interpret poor performance and cause the stock prices to fall as well. Adding to Lintners' (2011) model, D-Souza (2009) and Miller & Rock, (2015) suggested that dividend announcements convey information about the future prospects of the firms.

According to Murekefu and Ouma (2012), cash dividend announcements convey valuable information, which shareholders do not have, about management's assessment of a firm's future profitability thus reducing information asymmetry. Such information can be made use of by investors in assessing the firm's share price and making investing decision. Dividend policy under this model is therefore relevant (Al-Kuwari, 2017). The theory of tax clienteles for dividend policies predicts that after a firm initiates a dividend, tax-exempt/tax deferred and corporate investors for whom dividends are not tax disadvantaged will purchase shares of an initiator's stock that are being sold by individual investors for whom dividends are tax disadvantaged. As a result, the ownership of a dividend initiator's equity by tax-exempt/tax-deferred and corporate investors is expected to increase after the initiation (Collins, Saxena & Wansley, 2018).

Different theories have been proposed by researchers on the determinants of dividend policy by firms. Factors affecting dividend polcy can be grouped into internal and external. Internal factors are firm specific such as profitability, liquidity, investment opportunities, stage of growth of firm etc. while external factors include government

policies, technology, stability of earnings, willingness to dilute ownership, nature of shareholders, dividend payout of rival firms etc.

2.2.2 Profitability

The primary indicator of a firm's ability to pay dividends can be linked to its profitability Linter (2011) and Baker, Farrelly and Edelman (2015) indicate that the dividend payment pattern of a firm is influenced by the current year's earnings and previous year's dividends. Baker, et al. (2015) find that the anticipated level of future earnings is the determinant of dividend payment. Since cash dividends are usually paid out of the earnings of the company it follows that the more profitable the firms is, the greater its ability to pay and sustain a reasonable dividend bearing in mind that enough funds should be retained for re-investment to generate more profit in future. It is possible for a firm to borrow funds to pay dividends but if borrowing were necessary the minimum amount of dividend would most likely be paid. It looks more like dividend policy would depend on profitability and stability of earning than any other single factors (Baker, et al. 2015).

On the other hand, growth prospect must be evaluated in formulating a dividend policy. The firms must plan its needed financing in line with its forecasted growth. This greatly affects the need for retained earnings to finance growth. Olowe (2011b) in their study report that current and past years' profits are important factors in influencing dividend payments. Aivazian, Booth and Cleary (2013) find a positive

relationship between corporate profitability and dividend payout ratios. Alli, Khan and Ramirex (2018) indicate that profitability has always been considered as a primary indicator of dividend payout ratio. In this study, profitability (ROBT) is defined as Profit before interest and tax divide by total assets. Alli, et al. (2018); and Grullon, Michaely and Swaminathan (2012) also used this measure.

2.2.3 Liquidity

The liquidity position of a firm is an important determinant of its ability to pay dividend payout. A firm with a poor liquidity position means will be less generous in paying dividend due to shortage of cash. Alli, Khan and Ramirez (2018) argues that dividend payments depend more on cash flows, which reflect the company's ability to pay dividends, than on current earnings, which are less heavily influenced by accounting practices. They claim that current earnings do not really reflect the firm's ability to pay dividends. Liquidity and cash flow position of a firm is also a vital consideration. This arises from the fact that dividend payout entails huge cash flows. Therefore, a firm encountering liquidity challenges would find it difficult to pay higher dividend. The payment of dividend means cash out flows. Although, a firm may have adequate earnings to declare dividend, it may not have sufficient cash to pay dividends (Easterbrook, 2014).

Thus, the cash position of the firms is an important consideration in paying dividends. The higher the cash and overall liquidity position of the company the higher the

ability to pay dividend. A mature company is generally liquid and is able to pay large amount of dividends (Farrar & Selwyn, 2017). Such a company does not have much investment opportunities, the funds are usually not tied up in permanent working capital. Hence, they usually have a sound cash position. On the other hand, a growing firm faces the problem of liquidity even when it makes good profits. This is because it needs funds for the expanding activities and permanent working capital. As a result of the insufficient cash or pressures on liquidity in case of a growing firms, Management may not be able declare dividend. Gordon (2012) opines that there is a positive relationship between cash flow and dividend payout ratios. Alli, et al. (2018) also indicate that cash flow is an important determinant of dividend payout ratio. In this study relating to the banking industry, liquidity (LIQ) is defined as cash and other short term funds divide by deposit and other amount due to other banks. Cash and other short term funds include cash; amount due from other banks and other short term funds (Alli, et al. 2018).

2.2.4 Growth

Growing firm needs more capital for expansion than already established firm. This is evident in the studies of Llyod, Jahera & Page (2015) and D'Souza (2009), which suggests that firms with larger level of market risk is associated with low rate of dividend payout. Kanwal & Sujata, (2018) in their study on information technology in India found a positive significant relationship between systematic risk and dividend

payout. In terms of presence of investment opportunities, Easterbrook (2014) and Jensen (2006) supported the fact that firms with many investment opportunities pay fewer dividends. In their view, announcement of cash dividend shows that the firms have less investment opportunities. Firms with large investment plan that are characterized by huge capital flow commitments will pay less or no dividend.

According to Alli, et al. (2018), Ahmed and Carlos (2008) indicates that dividend payout depends more on cash flow, which reflect the company's ability to pay dividend rather than on earnings which are often influence by accounting practices. The stages of development and growth of a firm have also been found to have implication in dividend payout. According to Higgins (2014), there exist a direct link between growth and financing needs. He added further that rapidly growing firm have more external financing needs because working capital needs usually exceed the incremental cash flow from sales (Higgins, 2014).

2.2.5 Size

Firm size is one of the major determinants of cash dividend payout. Larger sized firms have easier access to capital market, this reduces their rate of dependency on internally generated revenue and hence, fosters prompt payment of higher rate of dividend (Vogt, 2016). Studies by Gaver & Gaver (2013) also supported a positive relationship between firm size and dividend payout.

Firm earnings have long been established to influence dividend payout. A study by Lintner (2013) showed that dividend payment pattern of a firm is influenced by the current earnings and previous year dividend. In line with the above, Baker & Powell (2000) posits that dividend payout is determined by a combination of industry specific factors and anticipated level of future earnings.

The size of a bank may have an impact on specific bank risk. In a non-competitive environment, if larger banks have a greater proportion of the domestic market, lending rates may be high while deposit rates for larger banks will be lower because large banks are perceived to be safer and consequently larger banks may enjoy higher profits. Furthermore, modern banking theory argues that large bank enjoys economies of scale. . This would imply lower costs for larger banks and as such higher profits. A higher profit means higher ability to pay dividend. Gaver and Gaver (2013), Musa (2015) and Rozeff, (2015) argues that large firms will pay large dividends to reduce agency costs. In this study, bank size (SIZE) is defined as the logarithm of total assets.

Murhadi, (2010) and Onali, (2009) argued that a growing bank size is positively related to bank profitability. Ho (2013) find a significant inverse relationship between size and rate of return on assets in U.S. banks from 1971 to 1990, and a positive relationship between financial leverage and size. Fama and French (2014) find a positive relationship between size and profits.

2.3 Theoretical Review and Framework

The literature on dividend policy has produced a large body of theoretical and empirical research, especially following the publication of the dividend irrelevance hypothesis of Miller & Modigliani (1961). However, general consensus has not yet emerged after several decades of investigation and scholars often disagree even about the same empirical evidence. Despite years of theoretical and empirical research, dividend policy remains a source of controversy especially with this aspect of dividend policy: the linkage between dividend policy and stock price risk (Allen & Rachim, 1996). The debate is ongoing and is a growing controversy in the field of finance. The question is the relevance of dividend policy. Gordon (1959) and Lintner (1956) believe stockholders prefer current dividends and that this causes a positive relationship between dividends and market value. To them, paying large dividends reduces risk and thus influences stock price (Gordon, 1959) and is a proxy for the future earnings (Baskin, 1989).

On the other hand, Modigliani & Miller (1958) demonstrated that, under the assumptions of perfect capital markets, rational behaviour and zero taxes, the value of a firm is independent of the firm's financial decision. In a later paper, however, Miller & Modigliani (1961) expanded their work and suggested that dividends may convey information about future earnings if the management of a firm follows a policy of dividend stabilisation and use a change in the dividend payout rate to signal a change in their views about the firm's future profitability. Since then, dividend policy has been a puzzle in corporate finance for several decades. Among numerous research

subjects about dividend policy, the most popular one is the relationship between the dividend level and the share price of a firm. The literature presents a contrast argument on the effect of a firm's dividend policy on its share price viz: the dividend relevance theory and the dividend irrelevance theory.

2.3.1 Dividend Relevance Theory

The dividend relevance theory hinges on the "bird –in-hand" argument. This theory contends that given the conditions of risk and uncertainty surrounding every investment decisions, investors are not indifferent as to how the earnings stream on their investment is split between dividends and retained earnings. Gordon (1962) and Cottle, et al (1962), the main motive for the payment of dividend is to increase share prices of the dividend paying firms. Gordon (1962), & Cottle, et al (1962) argued that share market price is a representation of the present value of estimated net cash flows realizable on a share discounted at the shareholders cost of capital. Mathematically, this can be stated as:

$p_o = D1V1 + D1V2 + \ldots\ldots + D1Vn = {}^{n}\sum D1Vt$

Where:

p_o = current market price per share.

D1Vn = estimated cash dividend receivable at period n.

Kn = cost of capital for the firm assumed to be all equity financed.

Anao & Osaze (1999) in support of this dividend reassert that in Nigeria and other African countries investors do not usually regard earnings reported by dividend paying firms as “true” earnings (due to the misrepresentation and manipulation of accounting figures by firms). They posit that investors take dividend levels as indicators of what a firm’s management really thinks earnings are or will be. However, critics of the dividend relevance theory have argued against the proposition that firms that pay higher dividends are more valuable, and appear less risky to investors, compared with firms that pay lower dividends. Adedeji (1985), states that the business risk of a firm directly depends upon the riskiness of its earnings as determined by the nature of its assets and as long as firms separate dividend decision from investment decision, it is the profitability of investment decisions of firms, rather than their dividend policies that should determine their market prices.

Some researchers while not opposing the dividend relevance theory have put forward the clientele effect theory as a critical factor which affects a firms share price movement. This assumes that investors might choose a particular stock, due to the firm’s dividend policy. Thus, some investors prefer dividends while some others do not. Hence, if such a clientele effect does not exist, then we would expect that a firm’s stock price will change when its dividend policy is changed. It can be adduced that investors are often attracted to shares of companies with consistent dividend policy. If a company is not consistent in its dividend policy, many investors might sell their shares as they would not know whether the level of dividends would suit their

preference or not. This would have an adverse effect on the share price of the company. Where various clienteles of investors have dividend preference, companies should take advantage of the situation by adjusting their dividend payment policy (Kalay, 1982, Etton, & Gruber, 1970, and Rodriguez, 1996).

According to Van Horne, (1989), investors may form clientele based on their tax brackets. Investors in high tax brackets may invest in stocks which do not pay dividends and those in low tax brackets may invest in dividend paying stocks. Thus, in equilibrium dividend payout of companies will match the desires of investors. It would then not be possible for any company to affect the market price of its stock by altering its dividend.

2.3.2 Dividend Irrelevance Theory

The dividend irrelevance theory of Miller & Modigliani (1961, 1966, & 1967) contends that there is no intuitive reason why dividend policy should impact the market value of a firms share. The authors argued that investors are indifferent between dividends and capital gains. They suggest that the market capitalizes the estimate of earnings of the business, and not the estimate of cash flows receivable by shareholders as indicated by Gordon (1962). Miller & Modigliani assert that the estimate of earnings is based upon the market assessment of the profitability of firms' investment decisions; and that if firms do not let their dividend decisions affect their

investment decisions, dividend policy should not affect their shares market values upward or downward.

While Miller & Modigliani (1961, 1966, & 1967) argue that there should be no relationship between dividend yield and share price movements, the authors however indicated that changes in the amount of dividend paid may lead to changes in share market prices. They attributed this to dividend information content effect. Miller & Modigliani suggest that, since in general, firms are reluctant to change their dividend policies, a change in the amount of dividend paid may be construed by the market as indicating a change in management's estimate of expected earnings of the business. In that regard then, when the rate of dividend paid is increased, share price may go up because the change may be interpreted by the market as a sign of increase in management's estimation of expected earnings of the firm and vice-visa.

Miller & Modigliani, (1967) assert however that, the reason share market prices fluctuate is not due to changes in the rate of dividend per se, rather it is a function of the information such changes provide to the market about expected earnings of the dividend paying firms. Also, there is no intuitive reason why dividend policy should impact share prices of firms. They argue that share price is determined by the performance or investment of the firm during the year ever before dividend decisions are made. Therefore, if firms do not let their dividend decisions affect their

investment decision, dividend policy should not affect their market values or stock prices.

2.3.3 Theory of Share Valuation

According to Fama, (1991) three principal theories have been propounded for share valuation namely: The Fundamental Theory, The Chartists or Technicians Theory, and The Random Walk Theory. The fundamentalist theory believes that every share has an intrinsic value (market value or price) which can be determined by discounting the stream of expected dividend with the shareholders required rate of return with or without dividend growth. According to the fundamentalists, as investors' expectations about future earnings change, the intrinsic value of the shares, and therefore their market prices, move up or down. The chartists or technicians theory states that future pattern of share prices are repetitions of patterns of price movements which occurred in the past, that is, historical cost pattern are repeated in the future. The chartists or technicians believe that share price /value can be measured in the following ways:

- Primary trends which show the upward or downward movement of share prices over a year or more
- Secondary trends which show the fluctuations over a month or more; and
- Tertiary trends which show fluctuations over a period of days.

Unlike the fundamentalist's theory, the chartists or technicians believe that share price movements reflect not only the underlying value of shares but also the hopes

and fear of those in the market. The random walk theory believes that share price movement follows a random walk and thus the prices of stock market cannot be predicted. The random walk theory supported the fundamentalist theory that every security has an intrinsic value and that it is not possible to beat or predict the market because stock prices reflect all available information and the occurrence of new information is seemingly random as well. The random walk theory is in direct opposition to the chartist theory, and maintains that if a firm performs well, the market value will go up and if they perform poorly the market value of its security would fall.

2.3.4 The Bird-In-The-Hand Theory

The essence of the bird-in-the-hand theory of dividend policy (advanced by John Lintner in 1962 and Myron Gordon in 1963) is that shareholders are risk-averse and prefer to receive dividend payments rather than future capital gains. Shareholders consider dividend payments to be more certain than future capital gains – thus a "bird in the hand is worth more than two in the bush". Gordon contended that the payment of current dividends "resolves investor uncertainty". Investors have a preference for a certain level of income now rather than the prospect of a higher, but less certain, income at some time in the future. The key implication, as argued by Lintner (1962) and Gordon (1963), is that because of the less risky nature of dividends, shareholders

and investors will discount the firm's dividend stream at a lower rate of return, "r", thus increasing the value of the firm's shares.

According to the constant growth dividend valuation (or Gordon's growth) model, the value of an ordinary share (SV0), SV0 is given by: SV0 = D1/(r-g); where the constant dividend growth rate is denoted by g, r is the investor's required rate of return, and D1, represents the next dividend payments. Thus the lower r is in relation to the value of the dividend payment D1, the greater the share's value. In the investor's view, according to Linter and Gordon, r, the return from the dividend, is less risky than the future growth rate.

However, M&M argued against this and referred to it as the bird-in-the-hand fallacy. In their irrelevance model, M&M assume that the required rate of return or cost of capital, r, is independent of dividend policy. They maintain that a firm's risk (which influences the investor's required rate of return, r) is a function of its investment and financing decisions, not its dividend policy. M&M contend that investors are indifferent between dividends and capital gains.

The reason for this indifference, according to M&M, is that shareholders simply reinvest their dividends in share of the same or similar risk companies.

2.4.4 The Agency Theory

Existing empirical evidence shows that many firms paid dividends despite their agency cost while other firms increasingly use share repurchases to distribute cash to shareholders. (Dittmar et al, 2013; Allen & Michealy, 2012). Attempts have also been made to examine the role of corporate governance on payout policy design from the perspective of pre-commitment. It was proposed that a pre-commitment interpretation of the role of governance in the design of payout policy and the dividends repurchases trade off can be used to test the effect of external and internal corporate governance on the incidence and level of overall cash distributions. These also include dividends, repurchases, composition of payout and payout policy type.

Easterbrook (2014) proposes that dividends reduce the agency costs of free cash flow and minimize suboptimal managerial behaviour. The free cash flow theory can be extended to form predictions about dividends and governance. Since good governance limits the potential for suboptimal managerial behaviour, the agency costs and the cash distribution required to mitigate them are lower. Optimal payout policy design aimed at maximizing firm value would therefore predict a negative relation between governance quality and the lever of payout.

Harford et al (2014) and Dittmer and Mahti-Smith (2015) observed that a positive relationship exist between governance and the level of cash holdings driven by quicker dissipation of excess cash reserves in the presence of entrenchment. Although dividend is a re-shown to respond to low investment opportunities, ownership

structure, and CEO compensation, there is a lack of empirical evidence on the role of governance in the determination of the type and structure of corporate payout. La Porta (2011) find that dividends are lower in countries with weaker investor protection. Consistent with it, cash holdings of firms are decreasing in the level of the investor protection (Dittmar, 2013; Allen & Michealy, 2002; and Baker & Powerll, 2000) provide detailed surveys of existing work on payout policy.

Jensen (2006) used agency predictions of the free flow theory to justify the presence of dividends and, more generally, corporate payout. However, the free cash flow theory does not explain the use of different forms of corporate payout and the choice of repurchases over dividends since any form of distribution of excess cash to shareholders would address the agency problem. First, it was argued that firms use policy to mitigate the agency conflict due to poor governance. However there is an important distinction between dividends and repurchases from the perspective of pre-commitment that explains the effect of governance on payout policy design and the dividends repurchase tradeoff. Existing empirical evidence suggests that repurchases are more irregular than dividends and primarily serve to distribute temporary windfalls of cash. The flexible nature of repurchases lowers the cost to the firm and lowers the cost to the firm and allows expose adjustments of payout a significance drop in market value. At the same time, Flexibility and irregular nature of repurchases makes them less effective at resolving the manager-shareholder agency conflict. Therefore, absence of a strong monitoring structure exacerbates the agency conflict

and increase demand for dividend pre-commitment. Dividends are used as a part or as sole component of the payout policy instead of a standalone repurchase policy.

2.4.6 Pecking Order Theory

The pecking order theory posits that firms prefer internal finance. They adapt their dividend payout ratios to their investment opportunities, while trying to avoid sudden changes in dividends. Where there is fluctuation in profitability and investment opportunities, the internally generated cash flows could be greater than or less than capital expenditure. If it is more, the firm will pay off its debt or invest in short-term marketable securities. If it is less, the firm draws down its cash balance or sells off its short-term marketable securities.

However, if the firm must resort to external financing it starts with debt, then possibly hybrid securities such as convertible bonds, and then equity as a last resort. The pecking order theory assumes that debt ratios change when there is an imbalance of internal cash flow, net of dividends and real investment opportunities. Thus highly profitable firms with limited investment opportunities try to maintain a low debt ratio while firms whose investment opportunities outrun internally generated funds are driven to maintain a high debt ratio. The problem with this viewpoint is that it assumes that dividend can only be paid in cash. While cash dividend is what matters to most investors, it is not the only form of dividend payment. A firm may elect to pay common stock dividends or declare a stock split. Brigham and Houston, (2008),

Pandey (2009) and Mainoma (2011) argue that both stock split and stock dividend do not by themselves alter shareholders wealth. Earnings per share and the market price of common stock decrease in proportion to the amount of shares distributed and each shareholder's proportion of ownership remains unchanged.

Several theories have been used to explain dividend policy. These are: Dividend Irrelevance and relevance theory, theory of share value, Bird in hand theory, Agency theory, and pecking order theory. The theoretical foundation of this study rests on dividend policy irrelevance theory and bird in hand theory. The reason why these theories are the main theories of this research work is because these two major schools of thought on Dividend Policy emphasize that dividend is irrelevant which is in accordance with Irrelevance theory, while the other school of thought on Dividend Policy emphases that dividend is relevant which theory is in line with the Bird in Hand.

2.4 Empirical Literature

Various empirical research has been done on the field of study. In Baker, Farrelly & Edelman study (2015), they found that the major determinants of dividend payout are predicted level of future earnings and pattern of past dividends. Rozeff (2015) finds a negative relationship between dividend payout ratio and the factors such as the growth rate of sales, insider ownership, and the beta of the firm.

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

Rachid and Wiame, (2016) analyze the relationship between dividend payments and firms performance with focus on listed firms in Morocco. The model developed two models in the bit to provide and empirical validation for both bird-in-hand Modigliani and Miller's dividend theories. employing regression analysis using secondary data collated from the annual reports of firms, it was discovered in the study that dividend policy is an important factor affecting firm performance as there is strong and positive relationship between dividend policy variables performance of selected firms hence the study concluded that dividend policy is relevant and that managers should devote adequate time in designing a dividend policy that will enhance firm performance and therefore shareholder value. Management of companies should also

invest in projects that give positive Net Present Values, thereby generating huge earnings, which can be partly used to pay dividends to their equity shareholders.

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

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

Abdul and Muhibudeen, (2015) analyzed the relationship between dividend payout and performance of selected oil companies in Nigeria between 1999 to 2013, using

data collated from annual report of the selected firms and techniques of estimation such as correlation and regression analysis. From the result of the study it was discovered that there is significant relationship between dividend payout and performance of the sampled firms.

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

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

Agyei and Marfo-Yiadom (2011) study the relationship between dividend policy and performance of 16 commercial banks in Ghana for a period of 5 years (1993-2003). Result shows a positive relationship between dividend policy and performance. It further reveals that leverage, size of a bank and growth, enhance the performance of banks.

Uwuigbe, Jafaru and Ajayi (2012) investigate the relationship between the financial performance and dividend payout among 50 listed firms in Nigeria for 2006 to 2010. Result shows a significant and positive association between the performance of firms and the dividend pay-out. The study also reveals that ownership structure and firm's size has a significant impact on dividend pay-out of firms.

Raei, Moradi and Eskandar (2012) examine dividend policies of Iranian listed firms. Results indicate a non-significant relationship between dividend policy and performance proxy, ROA. The study also shows that earning is positively associated with dividend policy.

Gul, Sajid, Razzaq, Iqbai, and Khan (2012) examine the influence of dividend policy on shareholders wealth (represented by market price per share) of 75 companies listed in Karachi Stock Exchange for duration of six years from 2005 to 2010. Using multiple regression and stepwise regression, result indicates a significant influence of dividend policy on wealth of shareholders for dividend paying companies.

Adediran and Alade (2013) explore the relationship between dividend policy and corporate performance of 25 companies quoted in Nigerian Stock Exchange. The regression result shows a positive and significant relationship between dividend pay-out policy and financial performance.

Salehnezhad (2013) investigates corporate governance and dividend policy in companies listed in Tehran Stock Exchange for the period 2010 to 2012. Using fuzzy regression analysis, the result shows that a positive relationship exists between financial performance (stock returns) and dividend policy.

Oyinlola and Ajeigbe (2014) examined the impact of dividend policy on the stock prices of 22 quoted companies in Nigeria during the period 2009 to 2013. Regression analysis, correlation analysis and Granger Causality Test were used to test research hypothesis on 110 observations. Findings reveal that both dividend payout and retained earnings are significantly relevant to the market per share of the companies.

Ouma and Murekefu (2013) sought to establish the relationship between dividend payout policy and financial performance of companies listed on the Nairobi Stock Exchange. Results indicate that dividend payout is a major factor affecting firm performance. The relationship between the variables is positive and significant.

Osegbu, Ifurueze and Iferueze (2014) analyses the extent of relationships between dividend payment and corporate performance in the Nigerian banking industry

between 1990 and 2010. Using regression models, the result shows no significant relation between dividend policy and performance. Interestingly, insignificant relationship occurs between dividend policy and other four explanatory variables (free cash flow, financial leverage, business risk and tax paid on dividend payment ratio).

Oyinlola, Oyinlola and Adeniran (2014) investigate the impact of performance on the dividend policy of two major brewery companies quoted on the Nigerian Stock Exchange for the period 2002-2010. Findings reveal that dividend policy is relevant and that a firm's dividend policy is seen as a major determinant for a firm's performance. Positive relationship exists between the dividend policy and performance.

2.4.1 Relationship between Dividend Policy Profitability (Return on Asset)

The decision about paying dividends 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.

The pecking order hypothesis provides some explanation of the interrelationship of dividend payout and profitability, taking into consideration the cost associated with firms find it difficult to pay dividends, while highly profitable firms are in the situation to internally generate funds to finance investment needs and pay dividends.

The classical work on dividend policy was of Fama and French (2014). 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 earnings and past year dividends. (Zakaria, et al., 2012) surveyed the financial managers of US firms and reported that both current and past year profits have influence on the dividend payout. Baker and Powerll, (2000) using sample of Malaysian companies summarized that profitability level measured by return on assets has a positive and statistically significant impact on dividend payout ratio. Murhadi, (20100 concluded that firms earning high profits prefer to pay more dividends if they have no investment opportunity. Rozeff (2015) found positive relationship between profitability and dividend payout ratio, concluding that Greek firms prefer to pay each year rather than following a constant payout. Lloyd, et al. (2015), in case of Indian firms concluded that dividend payouts fluctuate depending on the firm's profits. As explained by pecking order hypothesis, (D'Souza, 2009) found a significant positive relationship between profitability and dividend payout of Jordan firms but 1% increase in profitability (proxied by EPS) leads to an increase of only 167% to dividend yield. In case of Nigerian banks (Collins, et al., 2018) concluded that both current year profits and past year dividends are the determinants of current year dividends. Onali (2009) reported that due to family owned business environment in Pakistani context biasness at the time of director announcements results in huge pays and fringe benefits. Due to these extra costs net profit are

declined and it becomes difficult for the firms to declare the dividends, mainly shareholder suffer in all this game. Huda and Farah (2011) for diverse firms showed that dividend are sensitive to firm's profitability, but this relationship is non-linear when firms profitability achieve a certain point, reinvesting profits again can return more profits in future, the opportunity cost of holding dividends will increase and tendency to pay dividend decrease. Marfo-Yiadom and Agyei (2011) found that firm profitability is negatively correlated to the dividend payout. Lintner (2011) stated that in case when firm needs to plough back a major proportion of its profits to supports rapid growth, low dividend may results. Lintner (2011) found that profitability is irrelevant in explaining the dividend payout ratios.

2.4.2 Relationship between Dividend Policy and Liquidity

Jose (2009) in a study, using a data from 1991-1998 of 484 European banks belonging to 22 countries, found positive relationship between the liquidity and profitability explaining that firms earning stable cash flow (high liquidity) are in position to pay higher dividends as compared to firms facing unstable earning. Ayub (2003) also found positive relationship between liquidity and dividend payout policy suggesting that due to shortage of cash, poor liquidity results in less generous dividend payout policies. Mainoma (2001) argued that firms having improved financial position initiates dividend increments while companies facing financial problems triggered by decreasing profitability and low liquidity levels are forced to

cut dividends. Musa (2015) also concluded that dividend reducing firms face liquidity problem. Pandey (2005) found negative relationship between liquidity and payout ratio, suggesting that increasing dividend payout ratios reduce the liquidity and higher return on equity stimulates the firm need to retain more to reinvest or lower the dividend. In case of Indian firms (Lang & Litzenberger, 2009) also found positive relationship between liquidity and dividend payout ratios. Miller and Modigliani (2011) explored that liquidity does not have a significant impact on dividend payout.

2.4.3 Relationship between Dividend Policy and Growth

Walter (2005) in his study found negative relationship between growth and dividend policy, suggesting that firms in growth phase has investment opportunities, to finance these opportunities from internally generated funds, firms have to retain more and to pay very little or no dividend. These findings are providing support to the pecking order hypothesis. Rose (2001) found that mature companies are likely to be in low growth phase and less attractive investment opportunities, these firms don't have any incentive to retain more as a result of less capital expenditure firms follow a generous dividend payout policy. On contrary, young and new firms need cash reserves to finance investment plans and pay lower dividends.

As dividends policy and investments both are linked to the firm's cash flow, so firms in growth stage have investment opportunity, following pecking order hypothesis pay low dividends (Mainoma, 2001). Harkavy (2009) suggested that dividends

announcement as a way for stock price evaluation, because dividend announcement serves as signal for growth and lack of investment opportunity. Akhtar (2017) using America stock market data found that higher dividend payouts were associated with higher future growing firms. Cloyd, et al., (2015) suggested that highly growing firms have relative lower amount of free cash flow (cash in excess of funds required for all the projects having positive NPV) as compared to firms having few growth opportunities – having lower amount of free cash flow dividends. Baker and Veit (2011) indicated that there is a direct relationship between growth opportunity and financing needs, reasoning that normally working capital needs exceed the incremental cash flows from additional cash flows from firm's financial need to fund growth opportunities. Brealey and Myers (2015) stated that investment and dividends depend on each other, in case of growth opportunities investments need arises and dividend payments fall, on the other hand in absence of growth opportunities firms pay dividends to reduce agency cost. Carstens and Hardy (2014) found no relationship between growth and dividend payout of listed firms of Karachi stock exchange.

2.4.4 Relationship between Dividend Policy and Firm Size

Al-Malkawi (2017) concluded that size plays a prominent role in explaining firms' dividend payout. As firm grow, they mature, have easy access to financial market and become less dependent on internally generated funds which allows them to pay higher

dividends. Larger firms pay lower transaction cost as compared to smaller ones for raising new financing and pay more dividends (Ramli, 2010). Adedeji (2018) also found positive relationship between firm size and dividend payouts. Investors perceived that larger firms are less risky, hence, these firms have a better position in the market and can raise more fund as compared to the smaller ones and pay higher dividends. Additionally, the management of large firms is inclined to pay higher dividends (Eriotis, 2015). Al-Malkawi (2017) has concluded that size positively correlate with dividend payout ratio. His study supports that agency cost explanation, in large firms excessive cash flow results in significant agency cost. Thus dividend could play important role in reducing agency cost. Size plays a significant negative impact on dividends reasoning that large firms reinvest their profits into assets instead of paying dividends to shareholders (Al-Twairy, 2007). Hafeez and Attiya (2009) using the data of 245 non-financial companies found positive impact of size on their dividend payout. Making comparison of Pakistan larger firms pay dividends where as in China smaller firms offer more dividends (Syed et al., 2010).

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter will examine the series of steps taken to ensure that the results of this study are reliable. Thus, the research design will be robustly discussed. In addition, the sampling method, data analysis plan as well as the analytical framework will also be discussed extensively.

3. 2 Research Design

In this study, the expost facto research approach is adopted in order to evaluate relationships among variables across a set of population that may exhibit quite differing characteristics. This also involves analytical methods that involve the application of secondary data. The data for this study are gottenfrom the Nigeria stock exchange fact book. Indeed, the structure of the research involves combining cross sectional data with time series data to form a panel (pool) data.

3.3 Population of Study

The group to which this study intends to generalize its findings is all the deposit money banks quoted in the Nigerian Stock Market since the study borders on the establishing the relationships between dividend payouts and banking performance in

Nigerian. Consequently the population of the study consists of the entire deposit money banks listed in the Nigerian Stock Exchange which is about 17(Nigerian Stock Exchange Fact book, 2021)

3.4 Sample Size and Sampling Technique

The samples for this study are seventeen (17) deposit money banks selected from the Nigerian Stock Exchange Market. Using the data filtering technique, we arrive at a sample of sixteen (16) deposit money banks. The period for the study is five (5) years covering 2015 to 2019.

3.5 Data Source and Collection

The data for the study are computed on annual basis for the analysis of the study. The study utilizes data mainly from the secondary source. This is because the estimation of the model in the study requires the use of panel data in the form of financial and market information. The basic sources of data for the study are the Annual Reports produced by the respective companies.

3.6 The Data and Estimation Plan

Two broad techniques employed in the data analysis in this study, are the statistical and econometric techniques. The statistical tools to be employed are descriptive statistics and correlation analysis. Descriptive statistics are used because they provide

simple summaries about the samples and their measures and thus generate the initial characterization of the data set. Moreover, correlation analysis is used in the study to investigate the preliminary interactions among the variables of the empirical analysis. Correlation analysis is a statistical tool that describes the degree to which one variable is linearly related to another. Through conducting correlation analysis this study shall be able to identify the degree of association among the variables. For the purpose of empirical analysis and hypotheses testing, this study uses panel data regression technique to analyze available data to find out the relationships hypothesized in the study. Prior to the analysis involving panel data regression, the stationarity for each individual time series variable were examined, because the assumptions for the classical regression model requires that both variables be stationary and that errors have a zero mean and finite variance.

3.7 Model Specification

The model specified in this study demonstrates that firm performance responds effectively to dividend policy adopted by a particular firm. Therefore it derives from the dividend relevance school of thought in dividend policy theory. This study uses financial measures of performance such as the Return on Equity (ROE) and Return on Asset (ROA) as the dependent variables. The firm performance indicators are disaggregated into Return on Assets (ROA), Return on Equity (ROE), and a market

performance indicator, Earnings per Share (EPS). The explanatory variables include dividend policy and the current dividend payout ratio (DIV) which is given as

Dividend per share divided by Earnings per Share, previous dividend payout (DIV_{t-1}) and dividend per share (DPS). Other control variables are included in the model in order to ensure robustness in the estimates. These includecash flow (CF), growth opportunity (G),the firms leverage (LEV) which is measured as the ratio of total debt divided by the book value of Assets and size of the firm (SIZE). The functional form of this model will be:

$$PERF = f(DIV_{it}, DIVi_{t-1}, DPS_{it}, CF_{it}, G_{it}, SIZE_{it}LEV_{it}) \quad (3.1)$$

Where; PERF = measure of firm performance;

DIV_i = current dividend payout by firm i

DIV_{it-1} = one period lagged dividend payout by firm i (dividend of preceding year);

$DPS_{(t-1)}$ = dividend per share of firm i;

CF_{it} = Cash flow for firm i;

G_{it} = Growth Opportunity for firm i; and

SIZE = size of firm iLEV_{it}= Ratio of total debt to total capital for firm i in period t.

The econometric form of the model can be specified as:

$$PERF = \beta_0 + \beta_1 DIV_{it} + \beta_2 DIV_{t-1} + \beta_3 DPS_{it} + \beta_4 CF_{it} + \beta_5 G_{it} + \beta_6 SIZE_{it} + \alpha_7 LEV_{it} + \varepsilon_{it} \quad (3.2)$$

Given the three measures of firm performance adopted in this study, three equations can be specified for the estimations as follows:

$$ROA_{it} = \alpha_0 + \alpha_1 DIV_{it} + \alpha_2 DIV_{t-1} + \alpha_3 DPS_{it} + \alpha_4 CF_{it} + \alpha_5 G_{it} + \alpha_6 SIZE_{it} + \alpha_7 LEV_{it} + \varepsilon_{it} \quad (3.3)$$

$$ROE_{it} = \beta_0 + \beta_1 DIV_{it} + \beta_2 DIV_{t-1} + \beta_3 DPS_{it} + \beta_4 CF_{it} + \beta_5 G_{it} + \beta_6 SIZE_{it} + \alpha_7 LEV_{it} + \varepsilon_{it} \quad (3.4)$$

$$EPS_{it} = \delta_0 + \delta_1 DIV_{it} + \delta_2 DIV_{t-1} + \delta_3 DPS_{it} + \delta_4 CF_{it} + \delta_5 G_{it} + \delta_6 SIZE_{it} + \alpha_7 LEV_{it} + \varepsilon_{it} \quad (3.5)$$

The apriori expectations in the model are:

$\alpha_1, \alpha_2, < 0; \alpha_3, \alpha_4, \alpha_5, \alpha_6 > 0$

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6 > 0$

$\delta_1, \delta_2, \delta_3, \delta_4, \delta_5, \delta_6 > 0$

This means that current dividend payout by firm and one period lag dividend payout by firm are expected to be less than (<) 0, while other explanatory variables are expected to be greater than 0. The apriori expectations are that a negative relationship

will emerge. As dividend payout increases, firm performance (profitability) is expected to reduce and vice versa.

The performance measures in the model are related more to profitability since the main goal of the firms is to attain optimum profit size. Liquidity is measured through cash flow (CF), and the study uses profit after tax as a measurement for cash flow. Previous year's dividend will be measured through Preceding Year Dividend [$DIV_{(t-I)}$] while growth opportunity will be measured through year-on change in growth opportunity of the firm (G).The growth opportunity in this model will be calculated from sales/revenue growth rate. Size of the firms is measured as the log of total assets of the firms. All the variables to be used in this study as independent variables were considered as related to the dividend policy decision of respected firm as measured by dividend policy.

3.8 Method of Estimation

The model specified in (3.3) to (4.5) is based on the panel regression analysis procedure that is adopted in this study. The main advantage of the panel data analysis is that it comprehensively takes the individual characteristics of the different firms used in the study. It is generally observed that firm-level behaviour is a strong factor in the determination of dividend policy and hence, this differentiation may bring endogeneity bias into the estimation. The panel data analysis helps to correct this

inherent estimation problem. The basic class of models that can be estimated using panel techniques may be written as:

$$Y_{it} = f(X_{it}, \beta) + \delta_i + \gamma_t + \epsilon_{it} \quad (1)$$

The leading case involves a linear conditional mean specification, so that we have:

$$Y_{it} = X_{it}'\beta\delta_i + \gamma_t + \epsilon_{it} \quad (2)$$

WhereY_{it} is the dependent variable, and $X_{it}$is a -vector of regressors, and ϵ_{it} are the error terms for i = 1, 2,…, M cross-sectional units observed for dated periods t = 1, 2, …, T. The α parameter represents the overall constant in the model, while the δ_i and $\gamma_t$represent cross-section or period specific effects (random or fixed).

A central assumption in random effects estimation is the assumption that the random effects are uncorrelated with the explanatory variables. One common method for testing this assumption is to employ a Hausman (1978) test to compare the fixed and random effects estimates of coefficients. This test is also used to examine the randomness of the data distribution in this study.

3.9 Operationalisation of Variables

Firm Performance is the dependent variable in the study and shows the level of response of the firms to changes in dividend policy. The firm performance is measured by three variables: Return on Asset (which is used to show the internal and

operational performance of the firms); Return on Equity (used to capture the efficiency of management of funds available in the firm); and Earnings per share (which indicates the market performance of the firms).

Dividend Payout (DIV): This is the main explanatory variable in the empirical analysis since it captures the amount of dividend payment the firm makes on annual basis. This variable shows the direction of dividend policy of the firm since it gives information on the pattern of dividend activities in the firm. The variable is captured by two variants:

(i) Current dividend payout is the amount of dividend the firms pay out annually. It is obtained from the information on the annual reports of the firms and the higher the value, the more favourable the dividend policy.

ii) One period lagged dividend payout is the previous year's amount made available for dividend payment. The relevance of this variable derives from the fact that a firm may infer its current policy on dividend based on previous period.

In order to operationalise dividend policy, the following codes will be used:

1: The Company has a policy to pay dividends (1)

2: The Company has a policy not to pay dividends (0)

A dummy variable will be used to distinguish between companies that have a policy to pay dividend and companies that do not have a policy to pay dividend. Companies that have a policy to pay dividend will be assigned 1, while companies that do not have a dividend paying policy will be assigned 0.

Dividend Per Share (DPS) is another variable used to capture dividend policy and it is computed as total dividend payout divided by the share equity in the company. It is used to explain the input shareholders may contribute to the dividend policy of the firm. Higher DPS may indicate that shareholders are putting more pressure on the management to declare more dividends. This may likely dry up cash flow and hamper firm performance.

Cash Flow is the total liquidity available in the firm. It shows the level of availability of liquidity in the firm that may eventually be used for dividend payment. Less cash flow (which can come from higher dividend paid) will reduce firm performance.

Growth opportunity of the firm (G) is calculated as the year-on change in the asset of the firm. A growing firm will tend to have a more liberal dividend policy and also suggest that it is performing better both operationally and in the market.

Firm Size is measured in the model as the log of total firm assets. Larger assets base implies larger firms which can ensure better performance.

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction

In this chapter, the analysis and interpretation of the data in the study are performed based on the empirical strategy adopted. As mentioned in the previous section, the panel data regression technique is used for the analysis. In order to present a robust investigation and analysis of the study, two general methods are used in the empirical analysis, namely statistical and econometric methodologies. The statistical method involves the use of descriptive statistics as well as correlation analysis to examine the initial characterization and relationship among the variables of interest; while the panel data methodology is used to estimate the empirical model drawn from the time series-cross sectional data in order to succinctly determine the impact of the relevant dividend policy variables on deposit money bank's performance.

4.2 Data Analysis

Analysis of data involved processing the secondary data collected from the seventeen (17) firms in our sample for the study over the five year 2015-2019. The procedure for the analysis is in two forms. First, in order to provide a background to the empirical analysis, statistical examination is carried out on the data so as to generate the initial characterization of the data used in the study. Second the presentation and

analysis of the regression results is performed. As stated in the previous section, the E-views 9 Econometric software is used for the summary statistics as well as the econometric estimations. The data under consideration and the e-view output are attached in the appendices section.

4.2.1 Descriptive Statistics

Table 4.1 presents summary statistics on the three performance measures and the independent variables for the sampled banks. The descriptive statistics show that the average return on equity (mean value) for the firms is 7.05 which is relatively high. The median value of 6.15 is much less than the mean value and suggests that the ROE values are not similar across the firms in our sample, indicating the effect of heterogeneity in terms of equity performance due to varying dividend policies. This is further buttressed by the low (negative) minimum value of -1.46 compared to high (positive) maximum value of 19.11. The standard deviation of 1.05 is quite lower than the mean value and therefore indicates low variability in the ROE values for the selected banks. It is obvious that many of the return on equity for the selected firms do follow the same pattern and could possibly converge to a particular trend due to competitive dividend policies. The skewness value is also low, its positive value indicates positive skewness; more firms have ROE values that are less than the mean in the result. Apparently, some of the firms have high ROE values that tended to offset the low ROE values reported by most of the firms. The Kurtosis value of 8.07

is high while the J-B value of 108.2 clearly passes the significance test and shows that the ROEs are not normally distributed for deposit money banks in Nigeria.

For the return on assets (ROA) summary, the mean value is seen to be relatively higher than that of ROE, indicating better asset performance, for the selected firms when compared with equity performance but like the ROE outcome, there appears to be wide dissimilarities among the reported ROAs for the individual firms. The standard deviation value is also high and shows variability or rapid changes in the figures either over time for the respective manufacturing firms or across the sectional differences in the deposit money banks. The skewness is quite positively high, and it indicates that more banks reported lower ROA values than the average across the firms. The J-B value for the ROA is high, passes that significance test and clearly indicates that the ROA across the firms are not normally distributed. The implication of this is that there is heterogeneity among the firms in terms of performance either for the ROE or the ROA. Endogenity problem is therefore expected in the models if the OLS technique is employed. This is a clear justification for the adoption of the panel data analysis technique for the estimation of the relationships.

In the case of earnings per share (EPS), the mean value is relatively lower than the other two performance measures of ROA and ROE. Thus, EPS is usually stimulated by greater performance in terms of ROA and ROE.

In the case of the explanatory variables, it seen that the mean value of dividend per share (the variable of prime focus) is higher than all other values , an indication that higher firm performance tend to induce better dividend per share. The independent variables have similar characteristics with that of ROE ROA, and ROE, namely, high variability, positive skewness, leptokurtic and highly significant J-B values. Apparently, individual firm characteristics play important roles in the behaviour of the firms in terms of the variables used in the analysis. The summary statistics however show lower variability in the case of DIV, DIV (-1) and SIZE, showing that these variable reinforces each other.

Table 4.1: Descriptive Statistics

	Mean	*Median*	*Max.*	*Min.*	*Std. Dev.*	*Skew*	*Kurt.*	*J-B*	*Prob.*
ROE	7.05	6.15	19.11	-1.46	1.05	2.30	8.07	108.2	0
ROA	11.03	6.15	147.1	0.72	15.05	5.60	9.49	126.1	0
EPS	3.06	1.30	6.09	4.05	0.89	1.09	6.17	78.1	0
DIV	0.596	0.495	114.8	98.4	0.58	1.30	5.78	49.78	0
DIV(-1)	0.82	0.56	137	113.5	26.2	3.91	3.13	27.6	0
GROWTH	16.11	8.53	171.0	-63.2	30.17	5.12	7.44	17.9	0
DPS	25.17	19.16	120.3	116.0	19.3	3.59	5.6	75.6	0
CF	7.92	4.89	1.64	4.27	2.65	1.97	6.20	364.3	0
LEV	6.01	5.42	20.86	19.23	14.22	-5.61	4.15	3.44	0
SIZE	2.68	1.99	3.65	0.56	1.83	0.78	1.68	0.19	0

Source: Results extracted from E-views

Correlation Analysis

In econometric analysis, it is important to ensure that the independent variables in the models do not have excessive correlation patterns. Moreover, it is essential to examine, in a preliminary manner, the relationships among the variables in the study. The correlation analysis is used to conduct these investigations. The result of the correlation tests are reported in table 4.2 below. In the correlation matrix, a positive relationship is observed between ROE and each of the other variables except for debt ratio). The same pattern of correlation is also seen in the case of ROA, where all the variables have a positive relationship with ROA, showing that the variables positively stimulate ROA in the sampled firms. In the same vein, all the relevant dividend policy variables (except size) are seen to be positively correlated with earnings per share (EPS).

The correlations among the independent variables indicate that current dividend payout dividend is positively correlated with dividend per share, growth opportunities, cash flow, leverage and size of firms; while one lagged dividend payout exhibits a negative relationship with dividend per share. In the same vein, a positive relationship is seen between leverage and dividend per share, while a negative relationship is observed between size and EPS.

Table 4.2: Correlation Results

	ROE	*ROA*	*EPS*	*DIV*	*DIV(-1)*	*GROWTH*	*DR*	*CAF*	*LEV*	*SIZE*
ROA	0.015									
EPS	0.107	0.065								
DIV	0.116	0.230	0.037							
DIV(-1)	0.308	0.061	0.171	0.029						
GROWTH	0.315	0.037	0.462	-0.289	0.309					
DPS	0234	0.16	0.27	0.021	-0.191	-0.448				
CF	0.154	0.037	0.661	-0.279	0.309	0.17	-0.16			
LEV	0.179	0.918	0.512	0.613	0.091	0.852	0.19	-0.5		
SIZE	0.651	0.016	-0.17	0.334	0.211	0.079	0.01	0.120	0.18	

Source: Results extracted from E-views.

4.2.2 Empirical Results on the Panel Analysis

We conduct our econometric analysis to demonstrate the effect dividend policy decision variables on deposit money banks performance in the Nigerian stock exchange within the panel data analysis framework. As mentioned earlier, three firm performance variables are adopted as our dependentvariables, to include;ROA and ROE and EPSfor the firms.Our interest is the extent of responses of these firms' performance indicators to each of the selected dividend policy variables and other relevant exogenous factors in order to ascertain the empirical relationship between dividend policy and firm performance in Nigeria.

A. Least Squares Estimation

We begin by presenting the general OLS estimation of the relationship for the pooled data for the seventeen firms in the sample for the study. This will help to provide a more robust perspective for the current study. Table 4.3 reports the results for the ROE, ROA and EPS equations where we apply least squares to our baseline regression for measures of the independent variables. It should be noted that performance measure is regressed on the relevant dividend policy variables in order to have a more incisive, robust and comparative result.

As can be observed, the goodness of fit for the models is not quite impressive except for ROA, given their low coefficients of determination. These results are however to be expected given that pooled data are employed in the OLS results. The R-squared values for the performance results are low even though the results are quite significant. The ROE model reports a lower R-squared value of 0.43, suggesting that the selected explanatory variables explained just 43 percent of the systematic variations in ROE. For the ROA model, the R squared value is only 0.42 and shows that less that only 40 percent of the systematic variations in ROA at any given time for the firms are explained in the model. In the case of the EPS model, the coefficient of determination (R-squared) value of 0.51 indicates that over 51 percent of the systematic variations in earnings per share of the sampled firms are explained by

dividend policy variables. This indicates that the dividend policy of firms explains more systematic variations in EPS than other two performance measures.

Table 4.3: OLS Estimates of ROE, ROAAND EPS Models

Variable	**Return on Equity**		**Return on Asset**		**EPS**	
	Coefficient	*T-ratio*	*Coefficient*	*T-ratio*	*Coefficient*	*T-ratio*
DIV	0.2113	2.812	2.155	1.55	0.982	2.536
DIV(-1)	0.385	0.624	1.960	1.321	0.296	0.571
GROWTH	0.036	3.119	0.022	0.354	0.306	1.251
DPS	0.035	2.5684	0.165	2.65	0.987	5.594
CAF	-0.00645	-0.652	-0.014	-0.301	1.239	-1.791
LEV	0.116	0.1467	0.439	1.275	0.620	1.197
SIZE	0.922	1.313	1.122	1.221	1.059	2.174
	$R^2 = 0.43$		$R^2 = 0.51$		R^2=0.40	

Source: Results extracted from E-views

A quick examination of the individual coefficients of the explanatory variables reveals that current dividend payout, and growth opportunities of firms exerts positive and significant influence in equity performance of the firms, while that of cash flow, past dividend, leverage and size (although positive) do not have significant impact. The coefficient of cash flow is however found to have a negative and significant impact on ROE. In the case of the ROA equation, only the coefficient of dividend

payout is significant, indicating that the effect of higher dividend payout on asset performance is very critical. The other coefficients are positive as expected. For the EPS equation, the coefficients of growth opportunities passes the significance test at the 1 percent level and that of size passes the significance test at the five percent level since both coefficients have t-vales that are greater than the 1 percent and 5 percent critical t-value of 2.21 and 2.07 respectively. The coefficients of cash flows also pass the significance test for the EPS equation (although at the 10 percent level). Since the study is cross-sectional in nature, a statistical significance of a coefficient even at the 10 percent level is commendable. These results suggest that dividend per share is a very strong factor in the performance of such firms in Nigeria, since it invariably informs investors choice. Also, growth opportunity tends to exert strong effect in the determination of the performance of firms, particularly in the context of and ROE.

A. Panel Data Technique Estimation

The OLS estimates reported above dare not quite amenable for policy directions since the estimates inherently possess endgeneity issues. To avoid this challenge, the panel data analysis technique is employed in re-estimating the relationships. As stated in the previous section, the standard test for the method of panel analysis to adopt is the Hausman test for random effects. The results of the tests for both ROE , ROA and EPS equations are reported in table 4.4 below In the ROE equation, the Chi-Square statistic for the random sections argument is 1.66, implying that the null hypothesis

holds stating that a random effect exist in the cross sections of the data. This effectively rejects the fixed-effect in favour of the random effect result as the best method to capture the relationships in the panel; the random-effect method is thus applied for estimating the ROE model.

The result for the ROA and EPS equation shows that the Chi-square value of 12.19 and9.12 passes the test and therefore indicates that fixed-effect model is appropriate for estimating the equations among the cross-sections (firms) in terms of the behaviour of ROA and EPS. The fixed-effect method is therefore used in the estimation of the ROA and EPS equation respectively.

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

Test cross-section random effects			
Model	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Return on Equity	1.66	5	0.67
Return on Asset	12.194	5	0.019
Earnings Per Share	9.117	5	0.034

Source: Results extracted from E-views

Return on Equity Results (Random Effects Model)

From our results, the statistic provides little evidence against the null hypothesis that there is mis-specification when the random effect model is employed in the ROE model. Thus, we cannot reject the null hypothesis that unobserved firm specific heterogeneity are uncorrelated with regressors, and so we would be concentrating our analysis on estimates provided by the random effect model. This therefore implies that a random effect exist among the cross-sectional firms in terms of the behaviour of ROA. Hence, the best method to apply is the Random-effect strategy. In this study, we report the random-effects estimates and use the results for conclusions drawn. The result of the random effects model for is presented in table 4.5 below. In the result, the goodness of fit statistics has improved significantly, compared to the OLS estimates. The R squared value of 0.87shows that the dividend policy variables and other variables in the model have explained over 87 percent of the systematic behaviour of ROE for the sampled firms. This indicates that dividend policy is a strong explanatory and predictive factor in the performance of the firms in terms of efficient use of equity applications. The F value is also highly significant and shows that a significant linear relationship exists between ROE and the selected independent variables. Thus, the hypothesis of the existence of a significant linear relationship between the combined dividend policy variables (explanatory variables) and firm performance which is the dependent variable is validated. The D.W. statistic value of

1.74 suggests that autocorrelation is not a strong factor in the estimated model and the estimates are therefore reliable for policy directions.

Table 4.5: Random-Effects Results for ROE

Variable	*Coefficient*	*T-Ratio*	*Prob*
Constant	-0.331	-0.256	0.798
DIV	0.034	2.562	0.01
DIV(-1)	0.697	2.68	0.005
GROWTH	0.0084	1.897	0.080
DPS	0.0042	1.998	0.07
CF	0.0044	0.3012	0.764
LEV	0.90	1.32	0.19
SIZE	0.322	3.088	0.002
	$R^2 = 0.87$	F = 21.2	D.W = 1.74

Source: Results extracted from E-views

The particular contribution of each of the explanatory variables to the behaviour of return on equity is determined by observing the individual coefficients of the variables in terms of size, signs and significance. The results above show that all the variables in the model exhibit the expected apriori signs, indicating that each of these factors have positive impact on ROE in the firms, except the debt variable.

More importantly, we focus on the significance of the coefficients in the model. The results show that the coefficients of current dividend payout, past dividend payout and size are significant at the five percent level and 1 percent level respectively while that of dividend per share and growth opportunity are significant at the 10 percent level. All other coefficients fail the significance test at the 5 percent level. This result implies that current dividend, past dividend, growth and dividend per share exerts significant influence in the determination of ROE, while the other variables do not exert any significant impact on ROE in the firms. Thus, firms with better dividend policies and growth opportunities tend to have higher ROE values since these may become an impelling force for equity investment by investors.

Return on Assets Results (Fixed-Effects Model)

The result of the ROA model is reported in table 4.6 below. The coefficient of determination of the model of 0.78 is impressive, suggesting that dividend policies play an overwhelming role in the determination of ROA for firms. From the result, about 78 percent of the systematic variations in ROA is determined by the explanatory variables in the model. The F-value of 11.58 passes the significance test at the 1 percent level and ascertains the combined effects of the independent variables on ROA. The D.W. statistic of 2.17 is also quiet impressive indicating that there is no autocorrelation in the empirical estimates, making the model reliably fit for critical dividend policy decisions.

Table 4.6: Fixed-Effects Results for ROA

Variable	*Coefficient*	*T-Ratio*	*Prob*
Constant	-0.020	-0.425	0.66
DIV	0.558	11.646	0.00
DIV(-1)	0.222	2.354	0.02
GROWTH	0.168	2.151	0.031
DPS	0.192	0.384	0.671
CF	0.569	1.423	0.12
LEV	-0.753	-3.074	0.003
SIZE	-1.258	-1.413	0.12
	R^2 = 0.78	F =11.578	D.W = 2.17

Source: Results extracted from E-views

In terms of the individual performance of the variables in the model, the results show that the coefficients of current dividend is positive and highly significant at the 1 percent level and past dividend at the five percent level.The coefficient of leverage and growth opportunity are also positive and significant at the 1 percent level and five percent level respectively which indicates their strong influence in the determination of ROA of the sampled firms. The coefficient of SIZE however fails the significance test, thereby showing that arbitrary large size of firms could diseconomies of scale

and consequently dampen performance if not well-managed. This factor is an essential factor for the firms' internal or asset efficiency performance. The other coefficients (dividend per share and cash flows) fail the significance test. This result therefore shows that the particular dividend policy of firms (past and present), growth opportunities and leverage are very critical factors in return on assets in the selected firms.

Earnings per Share (EPS) Model Results *(Fixed-Effects Model)*

The empirical results of the EPS model is reported in table 4.7 below. A critical examination of the results show an impressive R^2 value of 0.89, suggesting that over 89 percent of the systematic variations in earning per share is explained by the combined dividend policy and other relevant performance enhancing variables. The combined explanatory power of the model as well as its reliability shown by the F-value of 31.92 is highly significant at the 1 percent level. This validates the hypothesis that a significant linear relationship does exist between dividend policy and firm performance (measured by EPS).

The D.W. statistic of 1.96 is also quiet impressive indicating that there is no autocorrelation in the empirical estimates, making the model reliably good for critical dividend policy decisions.

Table 4.7: Fixed-Effects Results for EPS

Variable	*Coefficient*	*T-Ratio*	*Prob*
Constant	1.056	1.218	0.12
DIV	0.178	2.53	0.021
DIV(-1)	0.663	1.273	0.131
GROWTH	0.218	4.341	0.0001
DPS	0.115	2.12	0.05
CF	0.017	0.680	0.477
LEV	0.397	1.366	0.117
SIZE	-0.151	0.694	-0.44
	R2 =0.89	F = 31.92	D.W =1.96

Source: Results extracted from E-views

More importantly, we focus on the significance of the coefficients of the explanatory variables in the model. An examination of the empirical results shows that all the coefficients (SIZE) have the expected signs. The coefficient of current dividend passes the significance test at the 5 percent level, indicating that current dividend is significant in explaining earnings per share. This is so because financial literature establishes a one-to-one positive relationship between dividend and earnings per share. The coefficient of growth opportunity passes the significance test at a high level of 1 percent, while that of dividend per share the significance test at the 5 percent level. Thus, dividend policies of firms and the growth opportunities are significant variables that influence earnings per share. All other coefficients failed the

significance test at the 5 percent level. This clearly indicates that they are not significant in explaining earnings per share of the selected firms.

In particular, the negative coefficient of size underscores the fact that excessively large size could have a deteriorating impact on firm performance owing to size-diseconomies of scale which dampens the prospect of firms-performance. Thus, given bureaucratic complexities associated with large firms, the prospect of increased performance may be reduced if management does not take critical decisions as regard it.

4.2.3 Hypotheses Testing

Based on the empirical analysis, the hypotheses are discussed herewith:

Ho_1: Changes in dividend policy has no significant impact on firm's performance.

We reject the null hypothesis and accept the alternate hypothesis which states that changes in dividend policy has significant impact on firm's performance since the respective e-values of the variables are greater than their corresponding critical values.

Ho_2: There is no significant difference in the impact of dividend policy on firm performance on the basis of performance indicators such as the Return on Equity (ROE) and Return on Asset (ROA)

We reject the null hypothesis and accept the alternate hypothesis since there is a differential of dividend policy on ROE and ROA.

4.3 Discussion of Findings and Policy Implications

The findings and subsequent discussions are far reaching and give impressive directions. First, the findings give indications that the performance measures used in the study may exhibit different relational patterns with different dividend policies of firms. The firms in the study could actually possess individual characteristics that will ensure that the effects of debt and capital structure may exact less than similar impacts on the performance on the respective banks. Another point of note in the correlation test is the relatively low correlation between among the explanatory variables. This indicates that the explanatory variables are not mutually exclusive in explaining firm performance, and thus do not substitute for each other. Thus, the critical importance of the relevant variables in key financial and firm-performance decisions of the firms is of great importance.

In the same vein, it shown from the empirical findings that dividend policy decisions that tend to enhance equity performance will invariably enhance asset performance of firms. The implication of this finding is that management should tie the objective of enhancing firm performance in terms of ROA, ROE and EPS as concentric, in terms of being achievable with same policy variables. Thus, the simultaneous achievement

of both performance variables is realizable with sound dividend policies. This is in agreement with the work of Ouma and Murekefu (2012).

The empirical findings clearly show the critical importance of dividend structure and growth opportunities in the attainment of better performance as reflected in ROA, ROE and EPS. This implies that dividend payout, dividend per share and opportunities for growths are very critical in the explanation of firms' performance in Nigeria. This is invariably so because prospective investors consider the dividend per share, growth potentials of firms as well as debt structure in the determination of where to invest their money. Firms with better dividend policies and growth opportunities tend to attract a significant portion of the investing public. This has the potential of stimulating performance in such firms. Also it was found that dividend payout, dividend per share, cash flow and firm size all exhibit the expected apriori signs, indicating that these variables have a positive impact on ROE.

Another important finding from the empirical analysis is that the impact of large size on firm performance is more beneficial and significant in the case of return of equity (ROE) than other performance measures of ROA and EPS. The implication of this finding is that management policy decisions as regards size should be always be weighed on a balanced performance-scale of whether firm's size simultaneously enhances other objectives through economies of scale spillover or not. In this regard,

critical size management policies are required so as to reduce the potential diseconomies of scale associated with unmanageably large size.

The results from the empirical analysis also show the weak effect of leverage on the asset performance of firms in Nigeria. This result aligns with those of Korteweg (2004) and Eduardo (2000). Apparently, application and consequences of debt as well as its sustainability do not seem to occupy to be critical in the determination of equity performance of the firms under study. How much losses a firm can absorb before shareholder equity are dissipated plays a significant role in the equity performance of these firms. When sustainability of liabilities and capital structure are not accorded due cognizance in the performance of firms, correctional measures during periods of capital, liquidity or managerial troubles will be difficult to apply.

The result suggests asset performance of the firms seems to drop with leverage. Our findings are not consistent with the *agency costs hypothesis* – higher leverage or a lower equity capital ratio is associated with higher profit efficiency, all else equal. This finding is however in line with findings of Efayena (2007). The implication of this is that capital structure is not an effective measure to be used in increasing the debt level, without causing any radical increase in agency costs. This will force the managers to pay little regard to shareholders' decisions and invest in ventures that they adjudge to be best even though it will be of little benefit to the shareholders Jensen (1986).

It can also be observed that the significance of the DPS coefficient in the ROE and EPS equation indicates that for equity performance, dividend per share patterns matter. The implication of this is that in policies concerning the enhancement of firm performance in terms of return on equity and earnings per share policies regarding dividend per share should be considered.

Finally, the results suggest the role of size in the determination of equity performance of the firms. Firms with well-managed large size tend to explicitly possess economies of scale efficiency in terms of managerial and technical capability and usually enhance performance.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECCOMENDATIONS

5.1 Introduction

This chapter focuses on the summary of findings from the empirical analysis as well as the conclusion. The policy recommendations necessitated by these findings are subsequently presented.

5.2 Summary of Findings

This study examines the impact of dividend policy on deposit money banks 'performance in Nigeria using three performance measures of returns on asset (ROA) return on equity (ROE) and earnings per share (EPS) with seven dividend policy variables of current dividend, one year lagged dividend, dividend per share, growth opportunities, cash flow, leverage and firms' size as independent variables. A sample of sixteen listed firms between 2015 and 2019 were examined using descriptive statistics, correlation analysis and panel OLS regression technique. The various analyses were employed to examine the relationship between dividend policy variables and firms' performance in Nigeria. The empirical results revealed that dividend policy of deposit money banks significantly influence firm's performance in Nigeria.

Specifically, the following findings were made from the empirical analysis:

1. A positive correlation exists between the ROE, ROA and EPS as performance measures. Thus, an increase in one of them invariably and simultaneously leads to the achievement of the other performance measure.
2. Current dividend payout and past dividend payout have a positive and significant influence in the determination of ROE and ROA. In the case of EPS, current dividend payout has a positive and significant influence while that of past dividend is weak. This finding supports the results of Zhou & Ruland (2006).
3. Growth opportunity has a positive and significant influence in the performance of firms reflected in the three measures of ROE, ROA and EPS, with the influence on ROE and EPS overwhelming.
4. Leverage (ratio of total debt to total capital of firm) has a negative and significant impact on firm performance using ROA, while its influence on ROE and EPS is positive but insignificant.
5. Firm's size has a positive and significant impact in the determination of ROE, while the influence it has on ROA and EPS is negative and significant.
6. Increased cash flow for firm tends to stimulate higher performance as the relationship between cash flow and firm performance is positive (though insignificant).

Overall, the empirical results reveal the existence of a significant relationship between dividend policy and firm's performance, and that appropriate and that sound dividend policy decisions would enhance the performance of deposit money banks in Nigeria.

5.3 Conclusion

Dividend policy is a critical and effective financial decision making tool in the enhancement of firm performance. A firm's dividend policy has an important role in the efficiency and financial performance of the firm. The determination of sound dividend policy is an arbiter in the agency cost hypothesis wherein a balance has to set between the objectives of the firm and maximization of shareholder's wealth. The impact of capital structure on firm's performance comes to the fore when view against the backdrop that managers must determine the appropriate and optimum dividend payout that will not jeopardize the shareholders interest and re-investment objective through retained earnings. This has led to quite a lot of measures with regard to the determination of appropriate dividend policy for firms in the quest to achieve better performance.

Given the fact that the appropriate dividend policy must be made as regard setting balance in maximizing shareholder's wealth and a firm needs to re-invest from retained earnings so as to enhance performance, then there is need for firms' management to determine the appropriate mix of policies. In this regard, management

should put in place effective, efficient and performance-oriented dividend and capital structure policies that can minimize the agency-problem. Concrete policy measures will need to be defined based on an in-depth sector specific analysis. Generally, proper and efficient financial resource mix and dividend policies should be instituted by firm's management that will not only solve the supposed agency-problem but capable of enhancing better growth opportunities and performance. It is only when measures like this are put in place that prospective investors will be motivated to further invest in such firms, thereby raising their market share prices and overall firm performance.

5.4 Recommendations

Based on the empirical findings of this study, the following policy recommendations are suggested for policy action:

1. Financial managers should institute sound, coherent and efficient dividend policies such that will enable them determine the right dividend policy that will enhance firms' performance in Nigeria.
2. Appropriate firm disclosure with respect to dividend payout and dividend per share is needed to guard the investing public in making the right investment choices in listed firms.
3. Managers of firms financial resources and investment managers of firms should ensure that the proportion of debt capital at any given point in time is such that

does not exceed the upper limit of debt finance or carrying capacity of the firms to avoid diseconomies of scale resulting from unmanageable debt capital. This will help in instituting a regulatory limit and ceiling to the proportion of debt capital such that will be performance-inducing.

4. Government and capital market regulators should institute sound regulatory and supervisory risk-management measures such as fixing an upper limit for the proportion of debt a firm can contract at given point in time to avert any possible systemic financial crisis, reminiscent in the case of the last banking crisis in which the economy would have bled severely, were it not for the time intervention of the Central Bank.
5. Effective and efficient management of firm's financial resources should be at the core of any credit risk management policies in Nigeria, particularly the banking sector in which poor, ineffective, inefficient and mismanagement of financial resources has largely accounted for the failure of most firms.
6. Capital market regulators such as the Securities and Exchange Commission (SEC) should at regular interval examine the risk positions of operating firms in Nigeria to avert extreme losses; prioritizing future expectations over present profitability.
7. Government should provide an enabling macroeconomic and political environment capable of making firms operating in Nigeria perform creditably. This include putting in place stable inflationary, exchange rate and tax policies as

well as stable political environment through appropriate legislation and institutional framework that will enable firms in Nigeria perform efficiently.

5.4 Contributions to Knowledge

This study made the following contributions to knowledge:

1. I developed an econometric panel regression model which helped to examine the dynamic effect of all the explanatory variables (DPS, dividend payout, cash flow, firm's size, growth and leverage) considered on firm performance which was proxied by ROA, ROE and EPS respectively.
2. The work has helped to update existing research and literatures on dividend policy and firm performance by filling the gap of time. The data used spans from the year 2015- 2019. This is one of the few works on the subject matter that includes very recent data which makes my findings very relevant in the present day especially as previous works done in Nigeria do not include 2013 data in their analysis.

5.5 Suggestions for Further Studies

The following areas are suggested for further studies:

1. Further studies should be done where there will be an increase in the sample size of the firms examined in order to make the study more robust.

2. Further studies should be carried out on the subject matter by adopting a disaggregated sectorial analysis so as to enable the empirical examination of the impact of dividend policy on a specific sector, say the banking sector.
3. Future line of studies should examine the proportion of earnings paid as dividend by firms in order to determine the differential impact of dividend payout and dividend per share on firm's performance.
4. International comparism is also an area of further studies. The result of this study can be used to compare a similar study carried out in other countries in order to draw up relevant conclusions that will aid our financial intelligence as well as broaden horizons.

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APPENDICES

Descriptive Statistics

	Mean	*Median*	*Max.*	*Min.*	*Std. Dev.*	*Skew*	*Kurt.*	*J-B*	*Prob.*
ROE	7.05	6.15	19.11	-1.46	1.05	2.30	8.07	108.2	0
ROA	11.03	6.15	147.1	0.72	15.05	5.60	9.49	126.1	0
EPS	3.06	1.30	6.09	4.05	0.89	1.09	6.17	78.1	0
DIV	0.596	0.495	114.8	98.4	0.58	1.30	5.78	49.78	0
DIV(-1)	0.82	0.56	137	113.5	26.2	3.91	3.13	27.6	0
GROWTH	16.11	8.53	171.0	-63.2	30.17	5.12	7.44	17.9	0
DPS	25.17	19.16	120.3	116.0	19.3	3.59	5.6	75.6	0
CF	7.92	4.89	1.64	4.27	2.65	1.97	6.20	364.3	0
LEV	6.01	5.42	20.86	19.23	14.22	-5.61	4.15	3.44	0
SIZE	2.68	1.99	3.65	0.56	1.83	0.78	1.68	0.19	0

Correlation Results

	ROE	*ROA*	*EPS*	*DIV*	*DIV(-1)*	*GROWTH*	*DR*	*CAF*	*LEV*	*SIZE*
ROA	0.015									
EPS	0.107	0.065								
DIV	0.116	0.230	0.037							
DIV(-1)	0.308	0.061	0.171	0.029						
GROWTH	0.315	0.037	0.462	-0.289	0.309					
DPS	0234	0.16	0.27	0.021	-0.191	-0.448				
CF	0.154	0.037	0.661	-0.279	0.309	0.17	-0.16			
LEV	0.179	0.918	0.512	0.613	0.091	0.852	0.19	-0.5		
SIZE	0.651	0.016	-0.17	0.334	0.211	0.079	0.01	0.120	0.18	

OLS Estimates of ROE, ROAAND EPS Models

Variable	**Return on Equity**		**Return on Asset**		**EPS**	
	Coefficient	*T-ratio*	*Coefficient*	*T-ratio*	*Coefficient*	*T-ratio*
DIV	0.2113	2.812	2.155	1.55	0.982	2.536
DIV(-1)	0.385	0.624	1.960	1.321	0.296	0.571
GROWTH	0.036	3.119	0.022	0.354	0.306	1.251
DPS	0.035	2.5684	0.165	2.65	0.987	5.594
CAF	-0.00645	-0.652	-0.014	-0.301	1.239	-1.791
LEV	0.116	0.1467	0.439	1.275	0.620	1.197
SIZE	0.922	1.313	1.122	1.221	1.059	2.174
	$R^2 = 0.43$		$R^2 = 0.51$		R^2=0.40	

Summary of Hausman Test for Cross-Section Random Effects

Test cross-section random effects			
Model	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Return on Equity	1.66	5	0.67
Return on Asset	12.194	5	0.019
Earnings Per Share	9.117	5	0.034

Random-Effects Results for ROE

Variable	*Coefficient*	*T-Ratio*	*Prob*
Constant	-0.331	-0.256	0.798
DIV	0.034	2.562	0.01
DIV(-1)	0.697	2.68	0.005
GROWTH	0.0084	1.897	0.080
DPS	0.0042	1.998	0.07
CF	0.0044	0.3012	0.764
LEV	0.90	1.32	0.19
SIZE	0.322	3.088	0.002
	$R^2 = 0.87$	F = 21.2	D.W = 1.74

Fixed-Effects Results for EPS

Variable	*Coefficient*	*T-Ratio*	*Prob*
Constant	1.056	1.218	0.12
DIV	0.178	2.53	0.021
DIV(-1)	0.663	1.273	0.131
GROWTH	0.218	4.341	0.0001
DPS	0.115	2.12	0.05
CF	0.017	0.680	0.477
LEV	0.397	1.366	0.117
SIZE	-0.151	0.694	-0.44
	R2 =0.89	F = 31.92	D.W =1.96