

**IMPACT OF DIVIDEND POLICY ON CORPORATE PERFORMANCE IN
NIGERIA**

BY

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**BEING A DISSERTATION SUBMITTED TO THE DEPARTMENT OF
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OF MASTER OF SCIENCE (M.SC.) DEGREE IN BANKING AND FINANCE**

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AUGUST, 2017.

DECLARATION

I hereby declare that, this dissertation is my original work and has not been previously resented wholly or in part for the award of other degree.

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CERTIFICATION

We the undersigned, certify that this research dissertation titled impact of dividend policy on corporate performance in Nigeria (2000-2016): An empirical review. This is the original work of the candidate and has been fully supervised, and found worthy of acceptance in partial fulfillment of the award of Master of Science (M.Sc) Degree in Banking and Finance.

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DEDICATION

This research work is dedicated to Almighty God, the giver of knowledge wisdom and understanding.

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ABSTRACT

Dividend policy of a firm and how it affects their performance is one of the hottest and debated issues that receive attention of researchers till date. In spite of the growing literatures and empirical findings, there has not been any general conclusion on the extent dividend policy may have influence corporate performance thus this study was carried out to examine the impact of dividend policy on corporate performance in Nigeria. The data for study were collected from the firm annual report/account of the firms under study, covering a period of 17 years; 2000-2016. Ex-post factor research design and time series data were adopted, E-view software version 7.0 were adopted for the analysis. The study covers two sectors: banking sector (Zenith, First and UBA Plc.), petroleum sector (Oando Plc, Japaul Oil and Maritime Services and Forte Oil Nig. Plc). The ordinary least squares (OLS) regression model was used to estimate the relationship between the dependent variable—return on equity (ROE) and the independent variables—earnings per share (EPS), dividend per share (DPS), dividend payout ratio (DPR) and firm size (FS). The result of the study showed that dividend per share, dividend payout ratio and firm size have significant impact on the performance of banking sector in Nigeria while only earnings per share does not have significant impact on the performance of Nigeria banking sector, but holistically dividend policy have significant impact on the performance of banking sector in Nigeria. Dividend per share and firm size have significant impact on the performance of petroleum sector in Nigeria while earnings per share and dividend payout ratio does not have significant impact on the performance of petroleum sector in Nigeria, but from a general perspective dividend policy have significant impact on the performance of petroleum sector in Nigeria. From the findings, the study concludes that dividend policy has significant impact on banking sector and petroleum sector in Nigeria. The study therefore recommends that managers should act in the best interest of investors as to reduce agency problems, complete information about the dividend policy of the firms should be provided. The study has contributed to knowledge by; investigating how dividend policy affect the performance of firms in Nigeria between 2000-2016 using time series data approach with E-view software version 7.0. The study suggests that, further research on this topic should use multiple regression model and include new variables. The sample should focus on other sectors and firms.

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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Dividend policy is the core component of a firm's overall financial policy. It comprises of a series of decisions regarding how the firms distribute profits to their shareholders and it mostly includes basic contents about the selection of dividend policy, dividend payout ratio and payout channel etc. since the dividend policy determines whether to distribute the earnings to shareholders or self-finance through retained earnings, thus it is an important issue that receives more attention this days from both academicians and practitioners.

According to Uwaigbe (2013) most business firms regard dividend retention as a primary source of financing as they believe that dividend payout ratio, and the percentage of earnings paid to shareholders reduces the account of earnings that the firm would have retained for future investment. Thus, dividend decision is one of the finance functions and decision areas of the finance manager. Some investors believe that a low payout policy would lead to less current dividend and perhaps enhance the earnings capacity of the firm that would initiate higher capital gains and increase market price per share. While others argued that a higher payout policy would tend to increase or maximize shareholders wealth. Most investors or shareholders prefer a high payout policy that would enhance their current earnings capacity.

According to Adesola, (2004) dividends are usually paid to owners or shareholders of business at specific periods. This is apparently based on the declared earning of the company and the recommendations made by its directors. Thus, if there are no profits made, dividends are not declared. But when profits are made, the company is obligated to pay corporate tax including other statutory taxes to the government.

Dividend policy is the trade-off between retaining earning and paying out cash or issuing new shareholders. Some firms may have low dividend payout because management is optimistic

about the firm's future and therefore wishes to retain their earnings for further expansion. It is hard to deny that taxes are important to investors. Although, dividend affects the shareholders tax liability, it does not in general alter the taxes that must be paid regardless of whether the company distributes or retains its profit and that tax is not an assessment of benefit; it is a means of distributing the burden of the cost of government.

Dividend policy is therefore, considered to be one of the most important financial decisions that corporate managers encounter. It has potential implications for share prices and hence returns to investors, the financing of internal growth and the equity base through retentions together with its gearing and leverage.

Mizuno (2007) agrees to the fact that a firm ought to pay dividends to shareholders if it cannot identify suitable investments which would bring higher returns than those expected by the shareholders. Dividend is the return that accrues to shareholders as a result of the money invested in acquiring the stock of a given company (Eriki and Okafor, 2002). While dividend policy on the other hand is concerned with division of net profit after taxes between payments to shareholders (ordinary shareholders) and retention for reinvestment on behalf of the shareholders (Kempnes 1980).

Glen, Karmokolias, Miller, and Shah (1995), suggested that dividend policies in emerging markets differ from those in developed markets. They reported that dividend payout ratios in developing countries were only about two thirds of that of developed countries. Different scholars have defined the term dividend policy differently. Hamid, Hanif, Ul-Malook, and Wasimullah (2012) defined dividend policy as the exchange between retained earnings and paying out cash or issuing new shares to shareholders. However the optimal policy is the one that strikes a balance between current dividends and future growth.

1.2 Statement of the Problem

Dividend policy is one of the most debatable issues in finance and management due to its sensitive nature to the firm and its stakeholders.

The goal of corporate entities is to maximize the value of shareholders' investment in the firm. Managers pursue this goal through their investment, financing and dividend decisions.

Investment decisions involve the selection of positive net present value projects. Financing decisions involve the selection of a capital structure that would minimize the cost of capital of the firm while dividend decisions of the firm determine the reward which investors and potential investors of the firm receive from their investment in the firm.

Apart from the investment and financing decisions, managers need to decide, on regular basis, whether to pay out of the earning to shareholders, reducing the agency problem (Jensen and Meckling, 1976). However, the question remains whether paying out of earnings would essentially create value for the shareholders or not, considering the fact that a dividend payment provides cash flow to the shareholders but reduces firm's resources for investment; this dilemma is a myth in finance literature.

Another challenge to consider is that cash dividend from earnings means giving reward to the shareholders, that is, something they already own in the company; but this will be offset by the decline in stock value.

However, conflicting interest of shareholders regarding dividend policy cannot be over-emphasize; every rational shareholder will consistently require that higher dividend be paid regardless of the investment decisions of the firm. Finance managers are in dilemma in harmonizing the both decisions (dividend and investment) since both decisions are very crucial to the worth of companies as shown in the growth of stakeholder's worth.

This research work intends to breach the gap by portraying the significant impact of dividend policy on corporate performance in Nigeria.

1.3 Research Questions

The study was carried out to propound solutions to the following research questions relevant for the study:

- i. How does earning per share (EPS) affects return on equity (ROE) of corporate performance in Nigeria?
- ii. To what extent does dividend per share (DPS) affect return on equity (ROE) of corporate performance in Nigeria?
- iii. How does dividend payout ratio (DPR) affect return on equity (ROE) of corporate performance in Nigeria?
- iv. To what extent does firm size (FS) affect return on equity (ROE) of corporate performance in Nigeria?

1.4 Objective of the Study

The primary objective of this study is to critically examine the impact of dividend policy on corporate performance in Nigeria. However the following specific objectives are of great interest to the researcher:

- i. To investigate the impact of earning per share (EPS) and return on equity (ROE) of corporate performance in Nigeria.
- ii. To investigate the impact of dividend per share (DPS) return on equity (ROE) of corporate performance in Nigeria.
- iii. To ascertain the impact of dividend payout ratio (DPR) on return on equity (ROE) of corporate performance in Nigeria.
- iv. To examine the effect of firm size (FS) on return on equity (ROE) of corporate performance in Nigeria.

1.5 Statement of Hypotheses

Having stated the problems and objectives of the study, the following hypotheses were formulated as a guide to achieve the expected result:

H₀₁: There is no significant impact on earnings per share (EPS) and return on equity (ROE) of corporate performance in Nigeria.

H₀₂: There is no significant impact on dividend per share (DPS) and return on equity (ROE) of corporate performance in Nigeria.

H₀₃: There is no significant effect on dividend payout ratio (DPR) and return on equity (ROE) of corporate performance in Nigeria.

H₀₄: There is no significant effect on firm size (FS) and return on equity (ROE) of corporate performance in Nigeria.

1.6 Scope of the Study

This research work was carried out to examine the impact of dividend policy on corporate performance in Nigeria. However, the study covers six (6) firms selected from two (2) different sectors, they include Banking sector (Zenith Bank, First Bank and United Bank for Africa), and Petroleum sector (Oando Plc, Japaul oil and Maritime Services and Forte Oil Plc) for a period of Seventeen (17) years; 2000-2016. Two sectors and 6 firms were selected due to the fact that getting data for other sectors will take a whole lot of time and the period apportioned for this research will not permit that, also more investors have diversified into the banking and petroleum sector because of the peculiar activities engaged in the sector and petroleum sector is one of Nigeria's major source of revenue generation.

1.7 Significance of the Study

The following persons will benefit greatly from the research investigation:

- i. **Management:** It will be of immersed benefit to management of organizations as it points out the desirability of dividend policy at various economic situations. The

knowledge of these findings will better equip them to make better dividend policy decisions.

- ii. **General Public:** The stakeholders of any firm come from the public and the operation of firms have direct effect on members of the public, hence, the need for them to be aware of the dividend policy of the firm.
- iii. **Business Practitioners and Investors:** This group comprises of the equity investor, bondholders and all other persons who invest in businesses. They need to understand the effect of their decisions.
- iv. **Students and Researchers:** This research will further contribute to the ongoing issue of dividend policy in Nigeria. Students and researchers in the field of finance will find it very useful and valuable to widen their knowledge about the issues in dividend policy.

In all, its importance cannot be overemphasized but it is sufficient to say these few.

1.8 Limitations of the Study

In any research work, the researcher faces a number of constraints; this research work was not exempted from such constraints. They include:

- i. **Time and Scope Factor:** This study is limited by the scope and time to permit the researcher to fully cover the material required to achieve the objectives.
- ii. **Lack of Material:** Research involves a cumulative process whereby present research builds upon prior research. The paucity of research practices often results to a few available research materials for further research.
- iii. **Data Collection Hindrance:** This includes inability to travel to places where relevant data could be gathered. All the data needed for this study could not be easily assembled.

- iv. General Economic Condition should not be overlooked. This is due to high cost of living and constant upward trend in the cost of material.

1.9 Definition of Terms

For the purpose of this investigation, the following constructs were defined as it is used in this study.

- a. **Corporate Taxation:** Is a levy imposed by government against income or profit of corporate organizations. It is a major source of revenue to the government.
- b. **Earnings:** The profit realized after tax and interest has been deducted.
- c. **Public Quoted Companies:** Companies listed in the Nigeria Stock Exchange (NSE).
- d. **Return on Equity (ROE):** Is the amount of net income returned as a percentage of shareholders equity. It measures a corporate profitability by revealing how much profit a company generates with the money shareholders have invested.
- e. **Dividend (DIV):** It is distribution, generally of assets, made by a corporation to its stockholders. The formula is given as: *Total ordinary dividend / No of ordinary share.*
- f. **Earnings Per Share (EPS):** This is the portion of a company's profit allocated to each outstanding share of common stock, serving as an indicator of the company's profitability. It is calculated as: *EPS = Profit after tax / Number of ordinary shares X 100.*
- g. **Dividend Per Share (DPS):** This is an accounting ratio used to evaluate the total number of dividends declared for each share of issued stock. It is calculated as: *DPS = Dividend paid / Number of Shares.*

- h. Dividend Payout Ratio (DPR):** This measures the percentage of net income that is distributed to shareholders in the form of dividends during the year. It is calculated as $DPR = \text{Total Dividends} / \text{Net Income}$.
- i. Firm Size (FS):** This represents the total assets owned by the firm and measured as the natural logarithm of total assets;

1.10 Organization of the Study

This study is sub-divided into five chapters in the following order;

Chapter One; Introduction: This subsection is concerned with the general background to the area of study and why the research is chosen. This will include; overview of the study, statement of the problem, objectives of the study, Research Questions, research hypothesis, scope of the study, definition of the terms, organization of the study, summed up to summary.

Chapter Two; Literature Review: This chapter talks about the various literatures related to the study. Here, emphasis was made on conceptual, theoretical, empirical review and the literature gap.

Chapter Three; Research Methodology: This is an important part of the research work, the methods adopted in collecting the data is taken recognition of, which include how the data was obtained and analyzed, presentation, analysis and interpreting the research work.

Chapter Four: Data presentation and analysis of findings: It entails the presentation and analysis of the data used and testing of the formulated hypothesis and result and discussion.

Chapter five discusses the findings of the research in details, conclusion and also made recommendations and contribution to knowledge.

1.11 Summary

The subject matter of dividend policy remains one of the most controversial issues in corporate finance.

Dividend policy is therefore, considered to be one of the most important financial decisions that corporate managers encounter. It has potential implications for share prices and hence returns to investors, the financing of internal growth and the equity base through retentions together with its gearing and leverage. Dividend policy is the trade-off between retaining earning and paying out cash or issuing new shareholders. Some firms may have low dividend payout because management is optimistic about the firm's future and therefore wishes to retain their earnings for further expansion.

This chapter cut across background of the study, problem statement, objectives of the study, research questions, research hypotheses, significance of the study and the scope were highlighted. Limitations likely to encounter in the course of the study were stated; though not going to render the work invalid as much effort will be put to make sure that, their effect are reduced to the barest minimum.

Finally, technical terms used were defined to avoid misinterpretation, confusion or ambiguity.

CHAPTER TWO

LITERATURE REVIEW

2.1 Conceptual Framework

Over the years, numerous studies on dividend policy theories have appeared. Walter E. James theorized on the issue by making known his Dividend Relevance Model/Proposition (Pandey, 2010). In his model, the dividend policy of the firm depends on the availability of investment opportunities and the relationship between the firm's internal rate of return, r and its cost of capital, k . also, Mayon Gordon developed one very popular model explicitly relating the market value of the firm to dividend policy. Modigliani and Miller also posited their Dividend Irrelevance Hypothesis, stating that the dividend policy of a firm is irrelevant, as it does not affect the value of the firm. Till today, investigations are still going on this very issue. This section is purely dedicated to the review of the various conceptual, theoretical and empirical investigations of different researchers in the past.

2.1.1 Dividend/Finance Manager

Functions of finance managers is to strike balance between dividend payout ratio and retained earnings; this is very difficult because of the conflicting interest of shareholders heterogeneous expectation- some shareholders prefer consistent payment of dividend whereas others will prefer capital gains arising from increased share prices (Aivazian, Booth and Cleary, 2003).

Finance manager will choose the type of dividend payment methods to adopt when making decisions regarding cash dividends or through stock repurchased. Various factors may be taken into consideration; where shareholders must pay tax on dividends, firms may elect to retain earnings or to perform a stock repurchased in both cases increasing the value of shares outstanding, (Kothari, 2011).

Scholars have believed that dividend is relevant to the value of firms, the school of thought on this propositions are Myron J. Gordon and James E. Walter against the back drop of

Modigliani and Miller (irrelevant theory). Different econometric tools are now formulated to assist firms analyze and come out with the best dividend policy. There has not been a compromise between the school of thought on the significant nexus between dividend and share price of firms.

There are various forms of dividend payment; cash dividends seen as the payment of dividend in cash usually via funds transfer or dividend warrant; such dividends are in form of return on investment and are usually taxable to the recipient in the year they are paid (Sullivan, 2003), script dividends are those paid out in the form of bonus stock of the issuing corporation, there are usually issued in pro-rata basis, (D'Souza, 1999).

2.1.2 The Concept of Dividend Policy

A dividend simply means that money that a company pays out to its shareholders from the profits it has made. Such payments can be made in cash or by issuing of additional shares as in script dividend. Companies that are listed in the stock exchange are usually obligated to pay out dividends on a quarterly or semi-annual basis. The semi-annual or quarterly payment is referred to as the interim dividend. The final payment, which is usually paid at the end of the financial year of the company, is known as the final dividend. Dividends are normally paid after the corporate tax has been deducted.

Dividend policy is primarily concerned with the decisions regarding dividend payout and retention. It is a decision that considers the amount of profits to be retained by the company and that to be distributed to the shareholders of the company (Watson and Head, 2004). Theoretically, there are different types of dividend policies. These include constant payout, progressive policy, residual policy, zero policy and non-cash policy. Investors are seen to belong to a particular group or clientele. This is because they tend to pitch their tent with a particular policy that might suite them. This is the clientele effect of dividend policy.

2.1.3 Constant Payout or Fixed Policy

The Company pays out a fixed amount of its profit after tax (PAT) as dividend. Thus, the company maintains a fixed payout ratio of dividend. Pandey (2010) defined Constant payout as the ratio of dividend to earnings. A company may as a matter of policy, decide to constantly payout sixty percent 60% of its after tax profit as dividend to its shareholders and retain (40%) as the remaining fraction. This type of policy allows the shareholders the opportunity to clearly know the amount of dividend to expect from their investments in the company. However as noted by Watson and Head (2004), the policy could be traumatic to companies experiencing a volatile or fluctuating profit earning. This is because of the uncertainty of its profit. If capital projects are to be viable capital projects, the policy can be chaotic.

2.1.4 Progressive Policy

Payment on dividend is on a steady increase usually in line with inflation. This could result in increasing dividend in money terms. The firm uses the policy as a ratchet, every effort is made to sustain the increase even though marginal. Seldom, the company may be constrained to cut down on dividend payout. This is to enable it sustain its operations. This though not a frequent action as it sends a wrong signal to investors. Firms operating this policy will opt to avoid paying dividends during the period rather than consistently cut down on the dividend.

2.1.5 Residual Policy

Dividends are just what is left the company determines the retained profits required for future investment. This policy gives preference to its positive Net Present Value (NPV) projects and paying out dividends if there are still left over funds available. Dividend becomes a circumstantial payment only paid when the investment policy is satisfied. There is a tendency therefore that this type of policy could give rise to a zero dividend structure. Firms may need

to modify this policy to ensure that investors of the different clienteles are not chased out by a strict application of the policy.

2.1.6 Zero Dividend Policy: Some firms may decide not to pay dividend. This is especially common in newly formed companies that rather require capital to execute its projects. All the profit is thus retained for expansion of the business. Investors who prefer capital gains to dividends because of taxation will naturally be lured by this kind of policy. This type of policy is quite easy to operate and avoids all the costs associated with payment of dividends (Watson and Head, 2004).

2.1.7 Alternative Policies

In order to give shareholders a choice between dividends or new shares, the company might choose to buy back shares. This is share or stock repurchase. This has a significant advantage in terms of tax to the shareholder. While the dividend is fully taxed just as ordinary income, the stock repurchase or buyback is not taxed until the shares are sold and the shareholder makes a profit or capital gain (Ross, Westerfield and Jordan, 2001). There is also the policy of stock dividends and split. Shareholders are given additional shares in lieu of cash to the shareholders.

2.1.8 Dividend Policies and Earnings

Nwude (2003:112) defines dividend policy as the guiding principle for determining the portion of a company's net profit after taxes to be paid out to the residual shareholders as dividend during a particular financial year; the purpose of a dividend policy being to maximize shareholders' wealth, by which is dependent on both current dividend and capital gains. Mishra and Narender (1996) found that not all profit-making state owned enterprises have adhered to the dividend policy guidelines.

Emekewue (2005:393), the essence of the dividend policy is to determine what portion of firms' earnings that will be paid out as dividend or held back as retained earnings.

Retained earnings are one of the important sources of financing of firms' projects. Dividend, on the other hand, is that portion of a firm's after tax profit that is shared out to shareholders as reward for investment while dividend, puts disposable income in the hands of shareholders. Juma'h and Pacheco (2008) assert that, on average, profitability, liquidity and the size of companies are important determinant of cash dividend decision.

Arif, Abrar, Khan, Kayani, and Ali Shah, (2011), opine that discretionary accruals do not significantly influence dividend policy. It means that the practices of earnings management are not only for the sake of dividend avoidance, but there can be several other reasons for this manipulation. The investor while making investment decision with a hope to have dividend, should not focus on the earnings management as a signal for the dividend policy formulation. Emekekwe (2005:393) found that dividend policies vary among firms. Some vary with the business cycle while others do not. The so-called growth firms usually pay out paltry amounts to shareholders and use what is left to address the financial needs of the firm.

However, the objective of providing funds to build up reserves in order to finance expansion projects, service and retire existing obligations and, consequently, enhance the earnings power of the firm is at variance with putting disposable income in the hands of shareholders.

A high rate of retained earnings translates to a lesser amount of disposable income to shareholders. Similarly, if a large portion of corporate earnings is paid out as dividend, the firm will not have enough to service and retire existing obligations, and of course, for reinvestment. Since retained earnings act as a buffer to the future earnings capacity of the firm, it is generally argued that a drop in retained earnings will precipitate a drop in the market value of stocks. Basse (2009) is of the view that firms seem to increase their dividend payments when facing an environment of a rising price level in order to stabilize the real value of dividend income. Therefore, higher inflation is a major driver of dividend increases.

Brennan and Thakor (1990) found that despite the preferential tax treatment of capital gains for individual investors, majority of a firm's shareholders may support dividend payment for small distributions. The directions in making dividend decisions should therefore give some consideration to the preference of the various categories of shareholders, and the problem is usually to identify the consensus preference of shareholders, especially in the case of widely held companies. The incidence of taxation on the firm and the shareholders has a bearing on dividend policy. Tax is a strong fiscal disincentive on dividend distribution. Miller and Scholes (1978) observed that dividend taxes do not influence share prices. Harris, et al (1999) found that if share prices absorb the effect of dividend taxation, then corporations could distribute dividends without imposing a penalty on shareholders at the margin, that is, dividend policy would be unaffected by dividend taxes.

The Dividend Signaling Hypothesis argues that dividends are used by companies to signal higher than expected future free cash flow, if managers have private information about the future or current cash flow, then investors will interpret a current dividend increase (decrease) as a signal that managers expect permanently higher (lower) future free cash flow levels (Bhattacharya, 1979).

The Free Cash Flow Hypothesis, first explained by Jensen and Meckling (1976), argues that agency problems arise in companies where ownership and control are separated, such as in public companies with dispersed shareholding. Managers have an incentive to overinvest relative to their first best optimal level in companies with sizable free cash flows or cash reserves. The overinvestment stems from the empire building or perks-prone attributes embedded in the managers' utility function. An increase in dividend reduces the free cash flow available to managers and, therefore, limits the overinvestment problem, creating value for the company. Conversely, a dividend cut augments the cash on hand to the managers and aggravates the overinvestment problem.

2.1.8.1 Types of Dividends

Nwude (2003:121-126) points out that there are five types of dividends that payout. These consist of cash dividend, stock dividend or bonus issues, stock or share split, reverse stock split and stock repurchase.

Cash Dividend: Cash dividend is payment of dividends in cash. This is customary for any company that declares dividends to pay in cash. When a cash dividend is paid the implication of the balance sheet is that the company's cash account and reserves account will be reduced, thus reducing both the total assets and the net worth of the company. A company that declares cash dividend must ensure that it has sufficient cash to meet its requirements.

Stock Dividend or Bonus Issue: Stock dividend is the payment of dividend in the form of issue of additional shares to the residual owners of the firm. It involves capitalizing the company's share premium or reserves and increasing the share capital account by the same amount capitalized from the reserves account. Liquidity is preserved as no cash leaves the company. The advantage to the shareholders is that they receive a dividend which they can convert into cash whenever they wish to sell their share while the disadvantage is that as the number of equity shares is increased, if the retained earnings do not yield a satisfactory rate of return, the share price can fall, especially when there is massive off-loading by the shareholders in the capital market. Stock dividend is issued to each shareholder in proportion to his or her existing shareholding in the company.

Stock or Share Split: This means the division of the existing share price by two or multiplication of the existing number of shares by two. The effect of stock split is that it reduces the prevailing par or nominal value of shares by half and doubles the existing number of shares. Management uses stock split to lower the price of its shares to attract increased trading activity on the shares on the stock exchange. Stock split does not affect either side of

the balance sheet in terms of Naira amount, but changes the figure and book entry of the number of shares outstanding as well as the par value.

Reverse Stock Split: A reverse stock split is a financial strategy of consolidating the nominal value of an existing share issue and a corresponding decrease in the number of shares in existence.

Stock Repurchase: This is the acquisition of a company's outstanding shares by the company itself for warehousing in the stock treasury. The purpose of stock repurchase may be to reduce the number of outstanding shares in order to increase the earnings per share (EPS) of the remaining shares which will consequently increase the market price per share (MPPS), and thus, general capital gains to shareholders. The capital gains substitute the cash dividends.

2.1.8.2 Methods of Dividend Payment

In Nigeria, the payment of dividend is predicated on the existing legislations which could be amended from time to time. Nwude (2003:127) points out that section 379(1) of the Companies and Allied Matters Act (CAMA) 1990 now Act, states that a company may in general meeting, declare dividends in respect of a year or other period only on the recommendation of the directors. The company shall pay, from time to time to the members such interim dividends as appear to the directors to be justified by the profits of the company. The general meeting shall have the power to declare the amount of dividend recommended by directors, but shall have no power to increase the recommended amount.

Where the recommendation of the directors of a company with respect to the declaration of a dividend is varied in accordance with subsection (3) of this section by the company in general meeting, a statement to that effect shall be included in the relevant annual return.

Subject to the provisions of this Decree, dividends shall be payable to the shareholders only out of the distributable profits of the company.

Section 380 provides that subject to the company being able to pay its debts as they fall due, the company may pay dividends out of the following profits:

- a) Profit arising from the use of the company's property, although it is a lasting asset.
- b) Revenue Reserves.
- c) Realized profit on a fixed asset sold, but where more than one asset is sold, the net realized profit on assets sold.

In Nigeria, dividends are often paid twice: the first is the interim dividend and the final dividend. Brealey and Myers (1999:418) assert that dividend is set by the firm's board of directors. The announcement states that the payment will be made to all those stockholders who are registered on a particular "recorded-date". Two weeks later, dividend cheques are mailed to stockholders.

2.1.8.3 Constraints on Paying Dividends

Most companies recognize that the shareholders have some desire to receive dividends, although shareholders are also interested in the capital gains. How much dividend should a company pay? The company's decision regarding the amount of earnings to be distributed as dividends depends on legal and financial constraints.

- i. **Legal Restrictions:** The dividend policy of the firm has to evolve within the legal framework and restrictions. The directors are not legally compelled to declare dividends. For example, the Companies Act provides that dividend shall be declared or paid only out of the current profits or past profits after providing for depreciation. However, the Federal Government is empowered to allow any company to pay dividend for any financial year out of the profits of the company without providing for depreciation. The dividend should be paid in cash, but a company is not prohibited to capitalize profits or reserves (retained earnings) for the purpose of issuing fully paid bonus shares (stock dividend). It has been held in some legal cases that capital profits should not be distributed as dividend unless

(a) the distribution is permitted by the company's Articles of Association and (b) the profits have been actually realized. The legal rules act as boundaries within which a company can operate in terms of paying dividends. Acting within these boundaries, a company will have to consider many financial variables and constraints in deciding the amount of earnings to be distributed as dividends.

ii. Liquidity: The payment of dividends means cash outflow. Although a firm may have adequate earnings to declare dividend, it may not have sufficient cash to pay dividends. Thus, the cash position of the firm is an important consideration in paying dividends; the greater the cash position and overall liquidity of a company, the greater will be its ability to pay dividends. A mature company is generally liquid and is able to pay large amount of dividends. It does not have much investment opportunities; much of its funds are not tied up in permanent working capital and, therefore, it has a sound cash position. On the other hand, growing firms face the problem of liquidity. Even though they make good profits, they continuously need capital. Because of the insufficient cash or pressures on liquidity, in case of growth firms, management may follow a conservative dividend policy.

iii. Financial Condition and Borrowing Capacity: The financial condition or capability of a firm depends on its use of borrowings and interest charges payable. A high degree of financial leverage makes a company quite vulnerable to changes in earnings, and also, it becomes quite difficult to raise funds externally for financing its growth. A highly levered firm is, therefore, expected to retain more to strengthen its equity base. However, a company with steady growing earnings and cash flows and without much investment opportunities may follow a high dividend payment policy in spite of high amount of debt in its capital structure. A growth firm lacking liquidity may borrow to pay dividends. But this is not a sound policy. This will adversely affect the firm's financial flexibility. Financial flexibility includes the firm's ability to access external funds at a later date. The

firm may lose the flexibility and capacity of raising external funds to finance growth opportunities in the future.

- iv. **Access of the Capital Market:** A company that is not sufficiently liquid can still pay dividends if it is able to raise debt or equity in the capital markets. If it is well established and has a record of profitability, it will not find much difficulty in raising funds in the capital markets. Easy accessibility to the capital markets provides flexibility to the management in paying dividends as well as in meeting the corporate obligations. A fast growing firm, which has a tight liquidity position, will not face any difficulty in paying dividends if it has access to the capital markets. A company that does not have sound cash position and it is also unable to raise funds, will not be able to pay dividends. Thus, the greater the ability of the firm to raise funds in the capital markets, greater will be its ability to pay dividends even if it is not liquid.
- v. **Restrictions in Loan Agreements:** Lenders may generally put restrictions on dividend payments to protect their interests when the firm is experiencing low liquidity or low profitability. As such the firm agrees, as part of a contract with a lender, to restrict dividend payments.
- vi. **Inflation:** Inflation can act as a constraint on paying dividends. Our accounting system is based on historical costs. Depreciation is charged on the basis of original costs at which assets were acquired. As a result, when prices rise, funds equal to depreciation set aside would not be adequate to replace assets or to maintain the capital intact. Consequently, to maintain the capital intact and preserve their earnings power, firm's earnings may avoid paying dividends. On the contrary, some companies may follow a policy of paying more dividends during high inflation in order to protect the shareholders from the erosion of the real value of dividends. Companies with falling or constant profits may not be able to follow this policy.

- vii. **Control:** The objective of maintaining control over the company by exiting management group or the body of shareholders can be an important viable in influencing the company's dividend policy. When a company pays larger dividends, its Cash position is affected. As a result, the company will have to issue new shares to raise funds to finance its investment programmes. The control of the existing shareholders will be diluted if they do not want or cannot buy additional shares. Under these circumstances, the payment of dividends may be withheld and earnings may be retained to finance the firm's investment opportunities.

2.1.8.4 Determinants of Dividend Payout Policy

Among factors that may be instrumental in affecting the dividend payout decision, based on the literature are:

- i. **Corporate Profitability:** Corporate profitability has long been regarded as the primary indicator of a firm's capacity to pay dividends. Baker and Powell (2001) indicate that the dividend payment pattern of a firm is influenced by the current year's earnings and previous years' dividends. He found that the anticipated level of future earnings is the determinant of dividend payment.
- ii. **Cash Flow:** The cash flow position of a firm is an important determinant of dividend payouts. A poor liquidity position means less generous dividend due to shortage of cash. 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. Amidu and Abor (2006) found a positive relationship between cash flow and dividend payout policy. Ani and Kapoor (2008) also indicate that cash flow is an important determinant of dividend payout policy.
- iii. **Tax:** Tax-adjusted models presume that investors require and secure higher expected returns on shares of dividend paying stocks. The consequence of tax-adjusted theory is

the division of investors into dividend tax clientele. Modigliani (1982) argues that the clientele effect is responsible for the alterations in portfolio composition. Masulis and Trueman's model in 1988 predicts that investors with differing tax liabilities will not be uniform in their ideal firm dividend policy. They conclude that as tax liability increases (decreases), the preference for dividend payment also increases (decreases). Tax-adjusted model assumes that investors maximize after tax income. As far back as 1967, Farrar and Selwyn concluded that in a partial equilibrium framework, individual investors choose the amount of personal and corporate leverage and also whether to receive corporate distributions as dividends or capital gain. Recently Amidu and Abor (2006) found a positive relationship between tax and dividend payouts

- iv. **Sales Growth:** Sales growth may have impact on dividend payouts. Dividend payout levels are not totally decided after a firm's investment and financing decisions have been made (Amidu and Abor, 2006); rather, the dividend decision is taken along investment and financing decisions. They points out that firm's use of target payouts, firm's motives for paying dividends and the extent to which dividends are determined are independent of investment policy. They also show a direct link between growth and financing needs of a firm. Rapidly growing firms require external financing because working capital needs normally exceed the incremental cash flows from now sales.
- v. **Market-to-Book Value:** Market-to-Book ratio reflects the market view of the value of equity in comparison to what shareholders have contributed to the firm since the day it was established. Omran and Pointon (2004) point that market-to-book ratio is an important factor that influence dividend payout policy, and Amidu and Abor (2006) found a negative relationship between market-to-book value and dividend payout policy.
- vi. **Debt to Equity Ratio:** The debt-to-equity ratio is a financial ratio that indicates the relative proportion of equity and debt used to finance a company's assets. This ratio is

also known as risk, gearing or leverage. Firms with high growth rates and high dividend payout utilize debt financing and firms with high leverage compared to their respective industry (Chehab, 2005). He also however, found a conflicting evidence for the relationship between dividend payout ratios and leverage. In some industries payout and leverage ratios are positively related while in other industries the relationship is negative.

2.1.9 Dividend Policy and Asymmetric Information

In a symmetrically informed market, all interested participants have the same information about a firm, including managers, bankers, shareholders, and others. However, if one group has superior information about the firm's current situation and future prospects, an informational asymmetry exists. Most academics and financial practitioners believe that managers possess superior information about their firms relative to other interested parties.

Dividend changes (increases and decreases), dividend initiations (first time dividends or resumption of dividends after lengthy break), and elimination of dividend payments are announced regularly in the financial media. In response to such announcements, share prices usually increase following dividend increases and dividend initiations, and share prices usually decline following dividend cuts and dividend eliminations. The idea that dividend policy can signal a firm's prospects seems to be well accepted among the chief financial officers (CFOs) of large US corporations (Amihud and Li, 2005).

Information about the prospects of a firm may include the firm's current projects and its future investment opportunities. The firm's dividend policy, either exclusively or in combination with other signals such as capital expenditure announcements or trading by insiders, may communicate this information to a less informed market. Empirical studies in this area, including Bhattacharya model (1979), John and Williams's model (1985), and Miller and Rock Model (1985), documented that announcement of dividend increases are followed by

significant price increase and that announcements of dividend decrease are followed by significant price drops. These studies of large changes in dividend policy-Asquith and Mullins (1983) (dividend initiations), Healy and Palepu (1988), and Michaely, Thaler and Womack (1995) (dividend omissions)-showed that the market react dramatically to such announcements.

Okpara (2010) is of the view that information asymmetry in the stock market occurs when one or more investors possess private information about the firm's value while other investors are uninformed. The study investigated the long-run effect of this dichotomy of information on dividend policy and found that dividend policy is a positive and significant function of information asymmetry. Abosedo and Oseni (2011) noted that direct proxies of information asymmetry produce verifiable and less subjective outcomes than proxies derived from data manipulation; therefore, identifying and selecting the firm and market specific proxies require the understanding of the firm and market dynamics that impacts significantly on equity pricing. Kapoor (2008) observed that Information Technology firms have a very high liquidity and it is an important determinant of dividend policy. Since the profitability of the companies is also very high, even if there is year to year variability in the earnings of the firms, they can easily pay huge dividends.

2.1.10 Stock Prices and Dividend Announcements

The Efficient Market Hypothesis proposed by Fama (1965) suggests three types of market efficiency: (i) weak, (ii) semi-strong, and (iii) strong. The weak form of market efficiency proposes that current stock prices reflect all past information. It also suggests that changes in stock prices are random and no investment strategy that is based on past information can yield above average returns to the investor. This implies that technical analysis will not be rewarded with above average returns. The semi-strong form of market efficiency (information efficiency) proposes that current stock prices incorporate material

public information and changes in stock prices will only lead to unexpected public information. This suggests that fundamental analysis will not be rewarded with above average returns. Finally, the strong form of market efficiency proposes that insider trading will not be rewarded as current stock prices incorporate all material non-public information (Reilly and Brown, 2006).

Market efficiency, however, does not simply occur by itself or because information is freely and timely available in the market. As Osei (1998) suggests, it depends heavily on the analytical and interpretational abilities of those who trade in the market, and the time they have and are ready to devote to obtaining and spreading price-sensitive information. The semi-strong form of market efficiency has mostly been investigated using event study methodology. Information disclosures related to dividends and earnings announcement, macroeconomic variables, stock repurchase announcements, mergers and acquisitions, etc; have been investigated in different studies to test the semi-strong form market efficiency.

Grinblatt, et al (1984) provide evidence that stock prices, on average, react positively to stock dividend and stock split announcements that are uncontaminated. Vaughan and Williams (1998) suggested that dividend changes in future income after the reduction in the tax penalty on dividends and an evidence that firms engage in tax-based signaling when the tax wedge between distribution methods is sufficiently high. Guay and Harford (1999) observed that stock price reactions to the announcements of both repurchase and dividend increases indicate that information in a payout announcement is not only the size of the payout, but also the method used to distribute the cash. Controlling for the size of the payout and the market's assessment of the permanence of the cash-flow shock, dividend increases are associated with a higher stock price reaction than repurchases.

Fuei (2010) pointed out that changes in dividend policy provide statistically significant information about future earnings, with unanticipated increases in dividend payout

leading to positive and permanent increases in future real earnings. Borges (2008) suggested that shareholders use their rights to force firms to pay dividends, especially if they believe that growth opportunities are low. In the next few years, it will be very interesting to see if these theories agree with new empirical evidence. If they do, then, may be, we have found the new paradigm that will replace the irrelevance proposition of Miller and Modigliani (1961) and definitely resolve the “dividend puzzle”. Yeh, Liou, and Lin (2011) results indicate that, the announcement effects are significantly negative when firms cut their dividends, future operating performance, research and development of a cash dividend decrease is lower than those of a cash dividend increase and announcement effects of increasing or decreasing cash dividends have a positive relationship between corporate performance and cash dividend changes. Akbar and Baig (2010) studied the effect of dividend announcement on stock prices. Results of their study showed that announcement of dividends either cash dividend or stock dividend or both, have positive effect on stock prices.

2.1.11 Shareholders Earnings (EPS) and the Firm

As submitted by Opler, Saron and Titman (1997), the financial structure decisions offer opportunities for firms to create value for shareholders, yet, these opportunities are often neglected because of the difficulty, especially for companies with complex liquidity structures, in identifying and quantifying the factors on the left hand side of the balance sheet that affect shareholders value. They note that corporate executives often have a general sense of whether the overall financial structure is “about right” but lack the tools that would enable them assess alternative liability structure, thus, as a practical matter, liability decisions are often based on partly cosmetic consideration and insistence on strict adherence to all rating agency guidelines, benchmarking against competitors and concern about the effect of financing on EPS.

Hyderabad (1997) agreed that the use of debt as a source of capital presents significant problems to business managers through, firstly, they must select that form of debt with the lowest explicit cost and least damaging impact on the firm and its stockholders through variability in EPS and, secondly, they must assemble a total financial structure which is composed of the least cost mix of both debt and equity capital. However, Patra (2005) states that the proportion of debt in the optimal financial structure will be less than the proportion of debt needed to maximize earnings per share because the market valuation of the stock considers the risk associated with the firm's operations expected well into the future and EPS is only based on the firm's operations expected for the next few years.

Earnings per share (EPS) can be described as the reward of an investor for making his investment and it is the best measure of performance of firm (Patra, 2005). The above definition of EPS and its importance were highlighted by Hyderabad (1997) when he said that the bottom line of income statements are as indicators of performance of top level management of the company. Ordinary investors lacking in-depth knowledge and inside information mainly based their decisions on EPS to make their investment decision, so it should be the objective of financial management to maximize the EPS from the point of view of both the investor and invitee. Thus, to him, the objective of financial management of maximization of value measured in terms of market price of equity share of a corporate entity is misplaced.

Pandey (2005) stated that given the objective of the firm to maximize the value of equity share of the firm, management should select a desired combination of financing mix or financial structure that will achieve the goal as stated by Patra (2005). Theoretically, optimum financial structure implies that combinations of debt and equity should be at the level where overall cost of capital is low and the value of the firm is high. Therefore, the prevailing view is that the value maximization criterion as a criterion of

optimal financial structure is measured in terms of market price of equity share, that is, the value of the firm is maximized when the market price of equity share is maximized. According to this view, maximization of the market price of equity share, leading to the maximization of value of the firm, is a criterion for optimum financial structure.

Contrary to the above view, according to Patra (2005), is that the market price of equity share should basically depend on the firm's earnings per share as the EPS valuation depends to a great extent, on many external factors such as government monetary and economic policies, political stability, state of the economy, speculative trends, etc. Thus, it may be contended that market price of share has no direct bearing on the optimum financial structure. He also agreed that since the financial structure decision is an internal decision of the firm, an increase in market price of shares should not be a criterion for optimum financial structure. Compsey and Brigham (1985) agreed with the above argument and assert that EPS may be a better substitute as a criterion of value maximization in respect of optimum financial structure. As such, maximizing EPS should be the main aim of a firm in order to realize the objective of maintaining an appropriate financial structure. Compsey and Brigham (1985) totally agree with the above argument and assert that EPS may be a better substitute as a criterion of value maximization in respect of optimum financial structure.

Servaes and Tufano (2006) supported Patra (2005) and Compsey and Brigham (1985) view when they declared that earnings per share, while irrelevant from a strictly theoretical perspective, are often actively managed by firm and debt has an impact on the level and volatility of EPS.

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

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

$$\text{Earnings per share} = N/T$$

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

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

$$\text{Dividend per share (DPS)} = \text{No of common share outstanding}$$

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

$$\text{Dividend payout ratio} = \text{Dividend per Share/Earnings per Share}$$

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

2.1.12 Relationship between Dividend Policy and Corporate Performance

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

- i. **Investment decisions:** “Where do they invest the scarce resources of their business? And what makes a good investment?”
- ii. **Finance decisions:** “Where do they raise funds for these investments? What mix of owner’s money (equity) or borrowed money (debt) do they use?” and

- iii. **Profit distribution decisions:** “How much funds should be reinvested in the business and how much should be returned to the owners?” While making these decisions, corporate finance is single-minded about the ultimate objective, which is assumed to be maximizing the value of the business.

Dividend decisions are important because they determine what funds flow to investors and what funds are retained by the firm for investment (Ross, Westerfield, & Jaffe, 2002). Moreover, they provide information to stakeholders concerning the company’s performance. Firm investments determine future earnings and future potential dividends, and influence the cost of capital (Foong, Zakaria, & Tan, 2007).

According to Manum, Hoque, Mohammad and Manum (2013), there is no gain to investors due to dividend declaration. They argued that investors’ wealth deteriorates due to share prices declining pre and post dividend declaration. This was attributed to continued market corrections as per regulatory requirements to minimize the chances of a bullish market. Firm performance can be measured by the earnings generated by the company in terms of profitability. There is therefore constant debate and great concern on the relationship between dividend policy and corporate performance in both developed and developing countries. Several theories have been proposed to explain the relevance of dividend policy and whether it affects firm value, but there has not been any universal agreement.

2.1.13 Evaluation of Corporate Performance

Financial performance as documented by (Copisarow, 2000) is considered as how good is the position of a firm, and how efficiently a firm is using its assets to earn more revenues and enlarge its operations. Giang and Tuan (2016) in analyzing how dividend policy is arrived at documented that at the end of fiscal years, the results of financial management in corporations with other business activities are reflected on firms’ financial statements and measured by financial indicators.

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

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

2.2 Theoretical Framework

Dividend decision involves a trade-off between the retained earnings and issuing new shares. Over the years, the relationship between dividend policy and the value of the firm have been advanced by two schools of thought of dividend theories. Those that claimed that dividends do not matter and those that claim they do. In summary, these theories can be grouped into two categories viz: Theories which consider dividend decisions to be an active variable influence the value of the firm.

The proponents of the dividend relevance school called the traditionalist or bird-in-hand propositions or rightists offered the first explanation for the relevance of dividend payment.

2.2.1 Dividend Relevance: The Walter's Model

Professor James E. Walter argues that the choice of dividend policies almost always affect the value of the firm. His model, one of the earlier theoretical works, shows the importance of the relationship between the firm's rate of return, r , and its cost of capital, k , in determining the dividend policy that will maximize the wealth of shareholders. Walter's model is based on the following assumptions:

- a. **Internal Financing:** The firm finances all investment through retained earnings; that is debt or new equity is not issued.
- b. **Constant Return and Cost of Capital:** The firm's rate of return, r , and its cost of capital, k , are constant.
- c. **100 Percent payout or Retention:** All earnings are either distributed as dividend or reinvested internally immediately.
- d. **Constant EPS and DIV:** Beginning earnings and dividends never change. The values of the earnings per share, EPS, and the dividend per share, DIV, may be changed in the model to determine results, but any given values of EPS or DIV are assumed to remain constant forever in determining given value.
- e. **Infinite Time:** The firm has a very long or infinite life.

Walter's formula to determine the market price per share is as follows:

$$P = \frac{DIV}{k} + \frac{r(EPS - DIV)}{k}$$

Where: P = Market price per share

DIV = Dividend per share

- EPS = Earnings per share
- r = Firm's rate of return (average)
- k = Firm's cost of capital or capitalization rate

2.2.2 Dividend Relevance: The Gordon's Model

Myron Gordon develops one very popular model explicitly relating the market value of the firm to dividend policy. Gordon's model is based on the following assumptions:

- a. All –Equity Firm:** The firm is an all-equity firm, and it has no debt.
- b. No External Financing:** No external financing is available. Consequently, retained earnings would be used to finance any expansion. Thus, just as Walter's model, Gordon's model too confounds dividend and investment policies.
- c. Constant Return:** The internal rate of return, r , of the firm is constant. This ignores the diminishing marginal efficiency of investment.
- d. Constant Cost of Capital:** The appropriate discount rate, k for the firm remains constant. Thus, Gordon's model also ignores the effect of a change in the firm's risk class and its effect on k .
- e. Perpetual Earnings:** The firm and its stream of earnings are perpetual.
- f. No Taxes:** Corporate taxes do not exist.
- g. Constant Retention:** The retention ratio, b , once decided upon, is constant. Thus, the growth rate, $g = br$, is constant forever.
- h. Cost of Capital Greater than Growth rate:** The discount rate is greater than growth rate, $k = g$. If this condition is not fulfilled, we cannot get a meaningful value for the share.

Gordon's formula is given thus:

$$P_0 = \frac{DIV}{(1+k)^1} + \frac{DIV}{(1+k)^2} + \dots + \frac{DIV}{(1+k)^n} = \sum_{t=1}^n \frac{DIV_t}{(1+k)^t}$$

2.2.3 Dividend and Uncertainty: The Bird-In-The-Hand Argument

According to Gordon's model, dividend policy is irrelevant where $r = k$, when all other assumptions are modified to conform more closely to reality, Gordon concludes that dividend policy does affect the value of a share even when $r = k$. This view is based on the assumption that under conditions of uncertainty, investors tend to discount distant dividends (capital gains) at a higher rate than they discount near dividends. Investors, behaving rationally, are risk averse and therefore, have a preference for near dividends to future dividends. The logic underlying the dividend effect on the share value can be described as the bird-in-the-hand argument. Krishman in (1933) first, put forward the bird-in-the-hand argument in the following words:

“Of two stocks with identical earnings record, and prospects but the one paying a larger dividend than the other, the former will undoubtedly command a higher price merely because stockholders prefer present to future values. Myopic vision plays a part in the price-making process. Stockholders often act upon the principle that a bird in the hand is worth two in the bush and for this reason are willing to pay a premium for the stock with the higher dividend, just as they discount the one with the lower rate”.

Myron Gordon has expressed the bird-in-the-hand argument more convincingly and in formal terms. According to him, uncertainty increases with futurity; that is, the further one looks into the future, the more uncertainty dividends become. In fact, it increases with uncertainty; investors prefer to avoid uncertainty and would be willing to pay higher price for the share that pays the greater current dividend, all other things held constant.

2.2.4 Dividend Irrelevance: The Miller-Modigliani (MM) Hypothesis

According to Miller and Modigliani (MM), under a perfect market situation, the dividend policy of a firm is irrelevant, as it does not affect the value of the firm (Miller and Modigliani, 1961). They argued that the value of the firm depends on the firm's earnings that result from its investment policy. Thus, when investment decision of the firm is given, dividend decision – the split of earnings between dividends and retained earnings – is of no significance in determining the value of the firm.

The crux of the MM dividend hypothesis is that shareholders do not necessarily depend on dividends for obtaining cash. In the absence of taxes, flotation costs and difficulties in selling shares, they can get cash by devising “home-made dividend” without any dilution in their wealth. Therefore, firms need not command higher prices for their shares.

MM's hypothesis of irrelevance is based on the following assumptions:

- i. Perfect Capital Markets:** The firm operates in perfect capital markets where investors behave rationally, information is freely available to all, and transactions and flotation costs do not exist. Perfect capital markets also imply that no investor is large enough to affect the market price of a share.
- ii. No Taxes:** Taxes do not exist; or there are no differences in the tax rates applicable to capital gains and dividends. This means that investor's value or naira of dividend as much as a naira of capital gains.
- iii. Investment Policy:** The firm has a fixed investment policy.
- iv. No Risk:** Risk of uncertainty does not exist. That is, investors are able to forecast future prices and dividends with certainty, and one discount rate is appropriate for all securities and all time periods.

2.2.5 Neutrality of Dividend Policy: The Black-Scholes Hypothesis

Black and Scholes argued that shareholders trade off the benefits of dividends against the tax loss. Based on the trade-offs that shareholders make, they could be classified into three clienteles: (i) a client that considers dividends are always good (ii) a clientele that considers dividends are always bad and (iii) a clientele that is indifferent to dividends. Shareholders in high tax brackets may belong to high-payout clientele as they may suffer marginal tax disadvantage of dividends. Tax exempt investors are indifferent between dividends and capital gains, as they pay no taxes on their income.

There are several hundreds of companies that ‘supply’ dividends to meet the demand of the three types of clienteles. Black and Scholes argue that since the supply of dividends and demand for dividends match, there will be no gains if a firm changes its dividend policy; the investors have already made their choices or there already exist opportunities for shareholders to shift from one firm to another. However, the Black-Scholes hypothesis shows that the tax disadvantage of dividends is not too great as made out by some academicians.

2.3 Empirical Review of Literature

The earliest major attempt to explain dividend behavior of companies has been credited to John Lintner in 1956 who conducted his study on American companies in the middle of 1950s. Since then there has been an ongoing debate on dividend policy in the developed and developing countries.

Supporting the Litner’s view on dividend policy, Fama and Babiak (1968) examined other models of dividend policy and concluded that managers prefer stable and sustainable dividend policy decisions

These issues did not receive any serious attention among academic scholars in Nigeria until 1974 when Uzoaga and Alazienwa attempted to highlight the pattern of dividend policy pursued by Nigerian firms particularly since and during the period of indigenization and

participation programme defined in the decree. Their study covered 52 company-years of dividend action (13 companies for four years). They claimed that they “checked but found very little evidence” to support the classical influence that determine dividend policies in Nigeria during these periods. They concluded that fear and resentment seem to have taken over from the classical forces.

Adelegan (2003) evaluated the asymmetric information of dividend, given earnings by shareholders in Nigeria. Using a study on 882 firms by analyzing the dividend policy and its effect on wealth maximization on a sample of 62 quoted firms in Nigeria over a wider testing period of 1984 - 1997, the study found a significant result and concluded that dividend policy does affect wealth maximization.

Miko and Kamardin, (2015) employing pooled panel data analysis to examine the impact of ownership structure on dividend policy of eight conglomerate firms consisting of 80 firm-observations in Nigeria, discover that there is a positive association between dividend pay-out and institutional ownership as well as block-holders ownership. The result also revealed that management ownership has a negative association with firms dividend pay-out. They concluded that dividend policy is used by managers to expropriate the shareholders wealth.

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

Ozuomba, Anichebe and Okoye (2016) in their study sought to find out how share value cum shareholders wealth is affected by dividend policies. Based on survey design that cover a one-year period with a sample of 10 quoted companies in the Nigeria stock exchange with the

use of Anova analysis, this study shows the relevance of dividend and further proves that dividend policies of public limited companies influence the wealth of shareholders in Nigeria.

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

Osiegbu (2004) studied dividend payment policy in the aluminum industry in Nigeria. He found that first aluminum had maintained a steady dividend pay-out (1996) at No 23 share. In 1996 first aluminum violated the income policy guidelines of Federal Government which pegged maximum dividend distributable at 60% of annual profit after tax. The company paid out 75% of its annual profit after tax to its shareholders.

Aluminum manufacturing company (Alumaco) adopted a dividend payout ratio from 1996-1998, but from 1999-2000 the company opted for irrelevant dividend policy which was not attractive to shareholders. Aluminum company share values performed below industrial sector average within the period under review (1996-2000).

Adelegan (2001) in a more recent study of the impact of growth prospect, leverage and firm size on dividend 1984-1997; observed that the conventional Lintner's model does not perform quite creditably in explaining the dividend behavior or corporate firms for the period under review. Supports that factors that mainly influenced the dividend policy quoted firms are after tax earnings, economic policy changes (due to the partial liberation of the

indigenization decree in 1989 and subsequent simultaneous abolition of the indigenization decree of 1995), firm growth potentials and long term debts.

However, Adesola (2004) in his study of dividend policy behavior in Nigeria using Lintner's model as modified by Brittain 1996-2000 appears to agree with Oyejide and Nyong's view that there is substantial and unequivocal support for the Lintner's model.

DeAngelo et al (2004), conducted a study on dividend policy, agency cost and earned equity. The study consists on why firms pay dividends? If they did not have their assets and capital structure, would eventually become unsustainable as the earnings of successful firms exceed their investment opportunities. They found that dividend payments prevented significant agency problems since the retention of the earnings would have given the managers command over an additional \$1.6 trillion without access better investment opportunities and without any monitoring. This sense suggests that firms with high retained earnings are especially likely to pay dividends. In this view, firms pay high dividend when earned equity total equity is high, and decline when this ratio is zero or near to zero, meaning that firms do not have the earned equity. They finally found that the highly significant association between the decision to pay dividends and the ratio of earned equity to total equity controlling for size of the firm, profitability, growth, leverage, cash balance and history of dividends.

Eriotis (2005), examined the effect of distributed earnings and size of the firms to its dividend policy of Greek firms and found that Greek firms set their dividend policies not only by net distributed earnings, but also by change in dividend, the change from last year earnings and size of the firm. The empirical findings of the study suggested that distributed earnings and size of firms are included as a signal about the firm's dividend. The Greek firms also having the long term dividend payout ratio was studied by the author using two variables to determine the corporate dividend payout decisions, distributed earnings and size of the

firm. The panel regression (cross section weights) were done and the results of the model gave significant estimations with the explanatory power (R^2) 95.4%. The evidence of the model suggested that dividend at time (t) can be expressed as the long run target dividend payout represented by both changes in dividend and in distributed earnings and its speed of adjustment towards distributed earnings and the last year dividend of the firm at (t). So the conclusion of the study is that Greek firms have a general dividend policy to distribute, each year dividend according to their target payout ratio, which is distributed earnings and size of the firm.

Osuala (2005) in his study, determinants of corporate dividend policy in Nigeria found that profitability (PAT) and return on equity (ROE) affect dividend payments. Neceur et al. (2006), conducted the study on the determinants and dynamics of dividend policy of Tunisia Stock Exchange. They selected 48 firms (non-financial) and examined whether the managers of the listed firms smooth their dividends or not. They attempted to explain if the Tunisian firms follow stable dividend policy? Do dividend yield differ across the industry sector? What are the mean factors that determine the dividend policies in Tunisia?

Baker et al. (2007), conducted the study on the perception of dividends by Canadian managers by taking the sample of 291 listed firms on Toronto Stock Exchange (TSE). The results of the studies regarding the factors influencing dividend policy, matters involving with dividend policy and explanation of why firms pay dividend show that the most important factors for determinants of dividend are level of expected future earnings, stable earnings, pattern of past dividends and the level of current earnings. The evidence of the study suggests that mostly managers of TSE listed firms are still making the decision regarding the dividends consistent with survey results and behavioral model of Lintner.

Ahmed and Javid (2009) in their study on the determinants of dividend policy show that Pakistan's listed firms rely more on the current earnings and the prior dividends.

Goergen, Correia and Renneboog (2004) used partial adjustment model to estimate the implicit target payout ratio and the speed of adjustment of dividends towards a long run target ratio and observed that German firms do not based their dividend decisions on published earnings but on cash flows and that German firms payout a lower proportion of their cash flows than UK and US firms so as to build up their legal reserves.

The important aspect of dividend policy is to determine the amount of earnings to be distributed to shareholders and the amount to be retained in the firm. Retained earnings are the most significant internal source of financing and growth of the firm. On the other hand, dividend may be considered desirable from shareholder point of view as they tend to increase their current returns (Pandey, 2011).

Uwaigbe (2013) examine the determinants of dividend policy and observed that there exist a significant positive relationship between firms and board independence on the dividend payouts decisions of the listed firms in Nigeria.

Also, Anil and Kapoor (2008) examine the determinants of dividend payout ratio of Indian Information Technology of sector, using pooled data for seven years. Their findings indicate that cash flows corporate tax, sales growth and market to book value ratio do not explain dividend payment pattern which existed in the industry observed that liquidity and beta year to year variability in earnings were found to be determinants.

Haslum, Shahid, Sajid and Umair (2013) studied the determinants of dividend policy of Pakistani banking sector using data for 27 foreign and domestic banks operating in Islamic and conventional banking in Pakistan Stock exchange. Using stepwise regression analysis, their findings suggest that liquidity, profitability, last year dividend and ownership structure indicates highly significant relationship with dividend payout of Pakistani banks and that profitability, last year dividend and ownership structure shows positive impact on dividend payout while liquidity shows negative impact on the banking industry and that size, leverage

agency cost, growth and risk shows insignificant relationship and have no impact on the dividend payout.

Amitabh and Charu (2010) re-examines various factors that have a bearing on dividend decisions of a firm, using a two-step multivariate procedure. Their finding indicates that leverage, liquidity, profitability, growth and ownership structure are major factors. Their regression results further indicate that leverage and liquidity are determinants of dividend policy for Indian companies.

Anupam (2012) investigates the determinants of dividend payout for all firms in the areas of Real Estate, Energy Sector, Construction Sector, Telecommunication Sector, Health Care and Industrial Sectors listed on the Abu Dhabi Stock exchange for the period of five years from 2005 – 2009, using multiple regression analysis and found out that profitability, risk, liquidity, size and leverage of the firm are most significant variables used by UAE firms in making dividend decisions and that profitability and size of the firm are most important considerations of dividend payout decision by UAE firms.

Similarly, Alzomaia and Al-Khadhiri (2013) examine the factors determining dividend represented dividend per share for companies in Saudi Arabia Stock Exchange for the period 2004-2010 using regression model and a panel data for 105 non-financial firms, variables used were earnings per share (EPS) previous dividend represented by dividend per share (DPS) for last year, growth, debt to equity (D/E) ratio, beta and capital size on dividend per share. Their result indicates consistently support that Saudi Arabia listed non-financial firms rely on current earnings per share and past dividend per share of the company to set their dividend payments.

Abor and Bokpin (2010) noted that current and past years' profits are important factors in influencing dividend payments. Firms which continually post good profits are in a better

position to pay dividends to their shareholders. On the contrary, companies that perform poorly over many years are unable to sustain dividend payments to their shareholders

The corporate dividend plans varies over time but also across the different countries, especially between industrialized, unindustrialized and evolving Capital markets. Dividend policy directly affects a company's cost of investment (Khan et al., 2016). Dividends are usually paid out of the current year's profit and sometimes out of general reserves. They are normally paid in cash, and this form of dividend payment is known as cash dividend. Another option available to a company for the distribution of earnings is by stock dividend (bonus issue) which is supplementary to cash dividend. When cash dividend is paid to shareholders, it has an adverse effect on the liquidity position and the reserves of the firm as it tends to reduce both of them (cash and reserves). Unlike cash dividend, stock dividend does not affect the total net worth of the firm, as it is a capitalization of owners' equity portion (Adefila, Oladipo, and Adeoti, 1999).

Dividend policy is also considered as the regulations and guidelines that a company uses to decide to make dividend payments to shareholders (Nissim&Ziv, 2001). The dividend policy decisions of firms in the view of Uwuigbe, Jafaru&Ajayi (2012) are the

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

$$\text{Earnings per share} = N/T$$

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

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

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

2.4 Literature Gap

Dividend policy and how it impact on performance of firm in Nigeria has gotten the attention of many researchers. In the past, most of the studies have been conducted focusing on dividend policy.

Over the years, numerous studies on dividend policy theories have appeared. Walter E. James theorized on the issue by making known his Dividend Relevance Model/Proposition (Pandey, 2010). In his model, the dividend policy of the firm depends on the availability of investment opportunities and the relationship between the firm's internal rate of return, r and its cost of capital, k . also, Mayon Gordon developed one very popular model explicitly relating the market value of the firm to dividend policy. Modigliani and Miller also posited their Dividend Irrelevance Hypothesis, stating that the dividend policy of a firm is irrelevant, as it does not affect the value of the firm. Till today, investigations are still going on this very issue. However, Adesola (2004) in his study of dividend policy behavior in Nigeria using Lintner's model as modified by Brittain 1996-2000 appears to agree with Oyejide and Nyong's view that there is substantial and unequivocal support for the Lintner's model.

The current study on divided policy seek to fill this gap by examining the impact of divided policy on corporate performance in Nigeria using Six (6) firms selected from two (2) sectors.

The current study used E-view package 7.0 version and time series data approach. This was encouraged and justified for such time series regression analysis because of its wider scope and sufficient observation.

The extensive review of this research work contributes to knowledge by investigating how dividend policy affects the performance of firms in Nigeria.

2.5 Summary

In the chapter above, emphasis was on the various literatures related to the work under investigation. The chapter is divided into four main headings with their various sub-headings; the conceptual, theoretical, empirical review, and literature gap. The conceptual dealt with the various concept associated with dividend policy. The various theories formulated, including the dividend relevance and dividend irrelevance prepositions were expatiated upon in the theoretical review of literature, while the works and findings of other authors who have contributed immensely to dividend policy were studied and the literature gap which this present study seek to fill were equally discussed.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

According to Yomere and Agbonifoh (1999) cited in Esene (2012), methodology in most research works refers to the general strategy followed by the researcher in gathering and analyzing the data necessary for the work. In this regard, this chapter presents the research design, population and sample size, sampling techniques, method of data collection, technique for data analysis, and model specification.

3.2 Research Design

The research design is a guide showing how the data or information regarding a research problem will be collected and analyzed within the research setting and economy of time and materials(Olannye, 2013).

In view of the above, in order to achieve the objectives of the study, the study used the ex-post-facto research design. According to Anyiwe, Idahosa and Ibeh (2013), Yomereand Agbonofoh (1999), ex-post-facto research design is a design measuring or ascertaining the impact of one variable on another or the relationship between one variable and another. The justification for the use of ex-post-facto research design is that the facts are taken the way they are in their natural form because they have already occurred and it is totally difficult or impossible to rearrange the conditions or manipulate the variables.

3.3. Population and Sample Size

The population of this study covers all the 176 corporate firms listed in Nigerian Stock exchange (NSE) as at March 1st, 2017. Thus, the sample size of the study cover two (2) sectors and Six (6) firms, they include; Banking sector (Zenith Bank, First Bank and United

Bank for Africa), Petroleum sector (OandoPlc, Japaul Oil and Maritime Services Ltd and Forte OilPlc).

3.4 Sampling Technique

The stratified sampling technique was adopted for the study. According to Baridam, D.M (2008), in stratified sampling technique, the target population is divided into homogenous sub-populations, then a systematic sample is selected from each sub-population. Olannye (2013) stated that stratified random sampling is a means obtaining representative samples from heterogenous population. It involves the process of dividing the target population into mutually exclusive non-overlapping homogenous group which is called strata.

3.5 Method of Data Collection

The data for this study were collected through secondary source; the Nigerian Stock Exchange fact Book and the annual reports/accounts of the firms under study. Time series data were used for the study. This is because; it has occurred and cannot be manipulated by the researcher since was taken as published by the firms under study.

3.6 Techniques for Data Analysis

The technique for analysis of the study was E-View package version 7.0. The approach used in this study wastime series data. Brooks (2010) opined that the E-View is encouraged and justified for such time series regression analysis because of wider scope and sufficient observation. In addition, Caner and Kilian (2010) noted that the estimation will show the t-statistic and the p-values for the coefficient which result in either rejecting or accepting the hypothesis at a specific level of significance.

3.6.1 Model Specification

To achieve the objectives of this study, the study specified its model as a process of constructing logical thinking and abstraction of economic reality. The specification of our model was based on the financial econometrics variables adopted for dividend policy in the study.

The functional form expression of the model is presented below:

$$Y = f(X_1, X_2, X_3, X_4) \text{----- Eq. (i)}$$

This are represented as

$$ROE = F(\text{EPS}, \text{DPS}, \text{DPR}, \text{FS}) \text{-----Eq. (ii)}$$

Where:

ROE	=	Return on Equity	-	Dependent Variable
EPS	=	Earnings Per Share	}	Independent Variables
DPS	=	Dividends Per Share		
DPR	=	Dividend Payout Ratio		
FS	=	Firm Size		

The model is expressed in operational form as:

$$ROE = \beta_0 + \beta_1 \text{EPS} + \beta_2 \text{DPS} + \beta_3 \text{DPR} + \beta_4 \text{FS} + \mu_t \text{-----Eq. (iii)}$$

Where β_0 = Constant Intercept;

$$\beta_1 - \beta_4 = \text{Vector Coefficients; -----Eq. (iv)}$$

$\mu_t = \text{Error term}$ -----Eq. (v)

3.6.2 The Apriori Expectation

The expectation of the result was proposed as EPS, DPS and DPR will have positive impact on profit of the corporate firms while FS will have negative effect on the profit of the corporate firms. This is represented as

EPS, DPS, DPR < 0, FS > 0.

3.7 Summary

This chapter discuss the methodology to be that which will be used to analyse the data in chapter four. The issues discussed include the research design, population and sample size, sample techniques, method of data collection, techniques of data analysis, model specification, apriori expectations, data estimation procedure. The chapter noted that the software for analysis the E-View version 7.0 is justified for such multi regression analysis because it is highly efficient.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Introduction

This chapter is dedicated to the presentation and analysis of the data of the 2 sectors selected from the Nigeria Stock Exchange. After the presentation of data in tables, attempt was made to describe some of the observable features about the data, and the analysis was done and the hypotheses tested for inference to be drawn.

4.2 Data Presentation

The following data presented below are summations of annual reports of 6 companies published in the Nigeria Stock Exchange Fact Books. For clarity and un-ambiguity, the data were presented in tables for the 2 sectors. The sectors and firms under study are listed below:

1. Banking Sector:

- i. Zenith Bank
- ii. First Bank of Nigeria Plc.
- iii. United Bank for Africa

2. Petroleum Sector:

- i. Oando Plc.
- ii. Japaul Oil and Maritime Services Plc.
- iii. Forte Oil Plc.

Table 4.2.1: Data for Banking Sector**Table 4.2.1a: Zenith Bank**

Year	Returns on Equity (ROE) %	Earnings Per Share (EPS) K	Dividends Per Share (DPS) K	Dividends Payout Ratio (DPR) %	Firm Size (FS) ₦ (Total Assets)
2000	4.060902858	322	50	0.15	40,756,774
2001	4.017656107	236	50	0.21	60,190,393
2002	3.785548112	341	90	0.26	92,562,897
2003	3.931399326	375	70	0.18	112,534,638
2004	3.313074523	168	70	0.42	193,321,489
2005	2.149668485	136	70	0.51	332,885,096
2006	4.11099621	191	110	0.57	610,768,300
2007	3.335499104	189	100	0.53	883,940,926
2008	3.082202734	345	70	0.20	1,680,302,005
2009	2.987611703	73	45	0.62	1,573,196
2010	2.375465275	106	85	0.80	1,798,679
2011	6.19731394	132	95	0.71	2,169,073
2012	7.898961464	305	160	0.52	2,436,886
2013	9.967047598	266	175	0.66	2,878,693
2014	11.59929369	295	175	0.59	3,423,819
2015	13.74930969	315	180	0.57	3,750,327
2016	14.391729	380	202	0.53	4,283,736

Source: Annual Report and Account of Zenith Bank (2000-2016).

Table 4.2.1a shows the relationship between returns on equity, earnings per share, dividends per share, dividends payout ratio and firm size of Zenith bank Plc. ROE was low (between 2-5%) from year 2000-2010 but increased from 2011 to 6% and got to 14% by 2016. EPS was high from year 2000 but fell in 2009 but recorded the highest in 2016 likewise DPS. DPR had its maximum in 2010 and the total asset of Zenith bank was so high in 2009.

Table 4.2.1b: First Bank of Nigeria Plc.

Year	Returns on Equity (ROE) %	Earnings Per Share (EPS) K	Dividends Per Share (DPS) K	Dividends Payout Ratio (DPR)	Firm Size (FS)₦ (Total Assets)
2000	0.29	324	130	0.40	180,553
2001	0.27	288	130	0.45	212,901
2002	0.22	196	150	0.0	266,356
2003	0.41	406	155	55.5	320,578
2004	0.28	381	160	55.9	312,490
2005	0.27	308	100	56.1	377,496
2006	0.029	269	10	54.5	540,129
2007	0.032	156	20	0.12	762,881
2008	0.045	223	35	0.15	1,667,422
2009	0.065	141	10	0.07	1,772,456
2010	0.077	83	50	0.60	2,037,209
2011	0.061	102	60	0.58	2,471,438
2012	0.191	218	80	0.36	2,770,674
2013	0.174	182	110	0.60	3,244,355
2014	0.183	243	10	0.04	3,490,871
2015	0.0058	11	15	1.36	3,332,375
2016	0.0089	21	18	0.85	266,903,000

Source: Annual Report and Account of First Bank (2000-2016).

Table 4.2.1b shows the relationship between returns on equity, earnings per share, dividends per share, dividends payout ratio and firm size of First bank Plc. Return on Equity (ROE) was a bit better between 2000-2005. But from 2006 to 2011 it reduced, and picked up in 2012-2014. It drastically reduced again between 2015 till 2016. The interest of the shareholders regarding the performance of the above variables were not achieved for the period under study. The implication of the result is that it is fluctuating, the share value has depreciated which means the company is not managing his investment very well. The EPS is

also depreciating, this means that the company is not handling its investment portfolio very well.

Table 4.2.1c: United Bank for Africa (UBA)

Year	Returns on Equity (ROE) %	Earnings Per Share (EPS) K	Dividends Per Share (DPS) K	Dividends Payout Ratio (DPR) %	Firm Size (FS)₦ (Total Assets)
2000	0.13	60	0.85	0.01	149,322
2001	0.14	70	0.25	0.57	187,248
2002	0.14	80	0.30	0.75	198,680
2003	0.22	117	0.45	0.84	200,995
2004	0.23	164	0.60	0.36	208,806
2005	0.262	152	0.60	0.39	248,928
2006	0.019	90	1.00	0.01	851,241
2007	0.025	100	1.20	0.01	1,102,348
2008	0.020	305	0.25	0.08	1,520,091
2009	0.033	60	0.75	0.01	1,400,879
2010	0.033	80	0.66	0.82	1,440,724
2011	0.043	115	0.34	0.29	1,666,053
2012	0.215	132	0.12	0.09	1,933,065
2013	0.151	141	5.9	0.04	2,217,417
2014	0.142	122	5.9	0.04	2,338,858
2015	0.146	122	0.10	0.08	2,752,622
2016	0.153	136	0.20	0.14	3,478,833

Source: Annual Report and Account of UBA (2000-2016).

Table 4.2.1c shows the relationship between returns on equity, earnings per share, dividends per share, dividends payout ratio and firm size of UBA. Return on equity reduced more from 2006-2011. It increased from 2012-2016. EPS was moderate from year 2000 to 2010 but recorded an increase from 2011-2016. DPS recorded more increase in 2013 and 2014. DPR had its maximum in 2003 and

2010 and the total asset of First bank was so high in from 2013 to 2016. This implies that the share value appreciated. The trend also shows that UBA managed it's investment more effectively. Their equity share was well utilized within this period.

Table 4.2.2: Data for Petroleum Sector

Table 4.2.2a: Oando Plc.

Year	Returns on Equity (ROE) %	Earnings Per Share (EPS) K	Dividends Per Share (DPS) K	Dividends Payout Ratio (DPR) %	Firm Size (FS)₦ (Total Assets)
2000	0.33	338	225	0.66	1,577,978
2001	0.079	240	225	0.93	6,759,604
2002	9.151	25	0	0	22,907,711
2003	0.133	245	200	0.81	22,596,178
2004	0.044	243	312	1.28	22,266,830
2005	0.064	240	0	0	27,666,686
2006	0.106	411	250	0.60	22,113,920
2007	0.597	422	400	0.95	44,713,575
2008	0.190	701	800	1.41	33,218,522
2009	0.132	515	300	0.58	35,079,844
2010	0.093	829	300	0.36	58,020,896
2011	0.026	829	300	0.36	52,731,165
2012	0.076	126	239	1.89	57,454,856
2013	0.022	23	30	1.30	106,089,751
2014	1.145	207	0	0	58,033,770
2015	1.224	423	0	0	46,190,458
2016	1.11	230	120	0.52	35,102,109

Source: Annual Report and Account of OandoPlc(2000-2016).

Returns on equity (ROE) being the dependent variable, share value is not constant, the share value of the shareholder is fluctuating and only become stable and increase from 2014 to 2016. This shows that OandoPlc is not employing good management skills on their business. While earnings per share, dividends per share, dividends payout ratio and firm size are the independent variables. ROE was low

from year 2000-2013 and increased from 2014 to 2016. EPS was moderate all through the period but was very low in 2002 and 2013. OandoPlc did not pay dividends in 2002, 2005, 2014 and 2015 but paid the highest dividends in 2008 and the total asset of OandoPlc was so high in 2013.

Table 4.2.2b: Japaul Oil and Maritime Services Plc.

Year	Returns on Equity (ROE) %	Earnings Per Share (EPS) K	Dividends Per Share (DPS) K	Dividends Payout Ratio (DPR) %	Firm Size (FS) ₦ (Total Assets)
2000	0.33	11	10	0.909	170,977
2001	0.36	10	11	1.1	275,194
2002	0.16	14	10	0.71	329,583
2003	0.20	17	09	0.52	367,798
2004	0.22	21	10	0.47	398,271
2005	0.23	17.10	14	0.82	693,215
2006	0.164	16.28	11	0.67	1,153,140
2007	0.246	32.40	14	0.43	1,531,254
2008	0.032	10.88	7	0.64	20,995,094
2009	0.034	11.67	13	1.11	21,287,608
2010	0.039	13	18	1.38	12,754,124
2011	0.039	14	278	19.8	14,073,389
2012	0.332	92	277	3.01	20,982,889
2013	0.002	1	0	0	21,697,654
2014	0.163	38	224	5.89	21,086,692
2015	0.988	111	113	1.01	35,022,430
2016	0.991	347	234	0.67	39,028,011

Source: Annual Report and Account of Japaul Oil and Maritime Services Plc(2000-2016).

Table 4.2.2b shows the relationship between returns on equity, earnings per share, dividends per share, dividends payout ratio and firm size of Japaul Oil and Maritime Services Plc. Return on equity (ROE) share value has not been stable. It is growing very slowly and fluctuated from 2007 to 2011 and 2013. It increased from 2014 to 2016. ROE was very low (between 0.00 – 0.988%) from year 2000-2016. EPS was fluctuating but recorded high earnings in 2012, 2015 and 2016. DPS recorded more increase from 2014 to 2016. The total asset of Japaul Oil and Maritime Services Plc recorded its highest in 2016.

Table 4.2.2c: Forte Oil Plc.

Year	Returns on Equity (ROE) %	Earnings Per Share (EPS) K	Dividends Per Share (DPS) K	Dividends Payout Ratio (DPR) %	Firm Size (FS) ₦ (Total Assets)
2000	0.05	5.30	4.99	0.94	338,396
2001	0.31	3.49	5.02	1.43	310,479
2002	0.23	3.47	5.03	1.44	543,320
2003	0.43	3.98	8.00	2.01	1,137,276
2004	0.74	8.18	9.00	1.10	6,463,032
2005	1.12	10.65	9.50	0.89	7,743,284
2006	1.117	2.74	0	0	10,732,175
2007	1.287	7.23	1.00	0.13	9,569,933
2008	0.730	6.35	7.00	1.10	10,462,278
2009	0.066	8.78	5.20	0.59	12,215,353
2010	0.086	2.54	0	0	10,169,070
2011	1.00	-20.02	4.02	-0.2	12,029,304
2012	0.017	0.61	3.65	5.98	37,464,000
2013	0.070	4.25	3.45	0.81	65,316,089
2014	0.028	2.42	3.00	1.23	93,678,406
2015	0.030	4.4	2.92	0.66	65,740,960
2016	0.039	2.48	2.02	0.81	73,458,995

Source: Annual Report and Account of Forte Oil Plc(2000-2016).

Table 4.2.2c shows the relationship between returns on equity, earnings per share, dividends per share, dividends payout ratio and firm size of Forte Oil Plc. ROE was low from 2000-2013, and increased from 2005-2006, from 2009 to 2016 it have been constantly low. Forte Plc share value was not properly managed. EPS was fluctuating all through and recorded negative in 2011. Forte Oil Plc did not pay dividends in 2006 and 2010, it's highest dividends paid was in 2005 after which the level of fluctuation on its dividend increased. The total asset of Forte Oil recorded its highest in 2014.

Table 4.2.6: Aggregate Data for Banking Sector

Year	Returns on Equity (ROE) %	Earnings Per Share (EPS) K	Dividends Per Share (DPS) K	Dividends Payout Ratio (DPR) %	Firm Size (FS) ₦ (Total Assets)
2000	1.493634	235.3333	60.28333	0.186667	13,695,550
2001	1.475885	198	60.08333	0.41	20,196,847
2002	1.381849	205.6667	80.1	0.336667	31,009,311
2003	1.520466	299.3333	75.15	18.84	37,685,404
2004	1.274358	237.6667	76.86667	18.89333	64,614,262
2005	0.893889	198.6667	56.86667	19	111,170,507
2006	1.386332	183.3333	40.33333	18.36	204,053,223
2007	1.130833	148.3333	40.4	0.22	295,268,718
2008	1.049068	291	35.08333	0.143333	561,163,173
2009	1.028537	91.33333	18.58333	0.233333	1,582,177
2010	0.828488	89.66667	45.22	0.74	1,758,871
2011	2.100438	116.3333	51.78	0.526667	2,102,188
2012	2.76832	218.3333	80.04	0.323333	2,380,208
2013	3.430683	196.3333	96.96667	0.433333	2,780,155
2014	3.974765	220	63.63333	0.223333	3,084,516
2015	4.633703	149.3333	65.03333	0.67	3,278,441
2016	4.85121	179	73.4	0.506667	91,555,190

Source: Researcher's Computation 2017.

Table 4.2.6 presents the aggregate data of returns on equity, earnings per share, dividends per share, dividends payout ratio and firm size for banking sector. The figures presented above were derived from the average of Oando Plc., Japaul Oil and Maritime Services Plc. and Forte Oil Plc.

Table 4.2.7: Aggregate Data for Petroleum Sector

Year	Returns on Equity (ROE) %	Earnings Per Share (EPS) K	Dividends Per Share (DPS)	Dividends Payout Ratio (DPR) %	Firm Size (FS) ₦ (Total Assets)
2000	0	84	80	1	695,784
2001	0	70	80	1	2,448,426
2002	3	74	5	1	7,926,871
2003	0	107	72	1	8,033,751
2004	0	89	110	1	9,709,378
2005	1	75	8	1	12,034,395
2006	0	67	87	0	11,333,078
2007	1	63	138	1	18,604,921
2008	0	103	271	1	21,558,631
2009	0	37	106	1	22,860,935
2010	1	35	106	1	26,981,363
2011	0	37	194	7	26,277,953
2012	0	104	173	4	38,633,915
2013	0	67	11	1	64,367,831
2014	1	87	76	2	57,599,623
2015	1	130	39	1	48,984,616
2016	1	176	119	1	49,196,372

Source: Researcher's Computation 2017.

4.2.1 Analysis of Data

As indicated in table 4.2.6, the aggregate data of ROE for the banking sector (Zenith ,First and UBA) for the period under review(2000-2016). It revealed that, the performance (ROE) of banking sector decrease between 2000-2004. However, it was 0 % in 2005. Then, in 2006 it was 1.38% and continued to decrease to 0% in 2010. It recorded a tremendous increasebetween 2011-2016 (2.1% -4.85%). This increase /decrease was due to the decision on the dividend policy of the management.

The table also revealed a fluctuating EPS of banking sector for the period under review (2000-2016).

The table 4.2.6 further revealed an increase of DPS of banking sector (Zenith, First and UBA) between 2000 – 2004. It also recorded a decrease between 2005 – 2009 and started increasing from 2010 – 2016(45.2k – 73.4k).

It also revealed that, the aggregate data of banking sector for the period under review (2000-2016). It shows that DPR increase between 2000-2005 and started decreasing between 2006-2016 (18.36% - 0.50%). The increase / decrease of DPR in banking sector could be as a result of high level of compliance on the policy guidelines of the Federal Government which pegged maximum distributable at 60% of annual profit.

The table also show that, the aggregate data of firms size (Total Assets) increased between 2006 -2008 (N13,695,550 – N561,163,173) and recorded a decrease of N1,582,177 in 2009. Then, it recorded another tremendous increase between 2010 – 2016 (N1,758,871 – N91,555,190). The increase recorded FS (total assets) of banking sector could be as a result of increase in number of public offer which leads to the expansion and opening of new branches.

The table 4.2.7, the aggregate data of ROE in petroleum sector (OandOPlc, Japaul Oil and Maritime Services and Forte Oil Nig. Plc). It shows a decrease of ROE from 3% - 0% for the period under review (2000 -2016).

The table also revealed that the aggregate data of EPS in petroleum sector recorded unstable earnings between 2000 –2012. Then it started increasing from 67k – 176k between 2013 - 2016. The increase / decrease could be as a result of policy adopt in the sector. This is in line with the progressive policy of dividend payment.

The table showed that, the aggregate data for DPS of petroleum sector for the period under review recorded a constant payout policy between 2000 and 2011 (80k each year); while a progressive policy was adopted between 2002 – 2016 as it there was increase/decrease of DPS within these period.

In table 4.2.7 the aggregate data of DRP shows that petroleum sector adopted a constant payout policy in thirteen years (2000 -2005, 2007,2008,2009,2010, 2013, 2015 and 2016). Within these period, the DPR was 1%; while in 2006, it adopted a zero payout policy. However, progressive policy was adopted in 3 years (2011, 2012 and 2014). Within these period, the percentage of DPR varies depending on the profit.

The table also show that, the aggregate data of firms size (Total Assets) increased between 2000-2013 (N695,784 – N64,367,831) and recorded a decrease from 2014 - 2016. Then, it recorded another tremendous increase between 2010 – 2016 (N57, 599, 623 – N49,196,372). The increase recorded FS (total assets) of petroleum sector could be as a result of increase in number of public offer which leads to the expansion and opening of subsidiaries.

4.3 REGRESSION OF DATA TECHNIQUES

The approach used in this study was time series data with the use of E-View software 7.0 version.

TEST OF HYPOTHESES

Having stated the problems and objectives of the study, the following hypotheses were formulated as a guide to achieve the expected result:

H₀₁: There is no significant impact on earnings per share (EPS) and return on equity (ROE) of corporate firms in Nigeria.

H₀₂: There is no significant impact on dividend per share (DPS) and return on equity (ROE) of corporate firms in Nigeria.

H₀₃: There is no significant impact on dividend payout ratio (DPR) and return on equity (ROE) of corporate firms in Nigeria.

H₀₄: There is no significant impact on firm size (FSIZE) and return on equity (ROE) of corporate firms in Nigeria.

4.3.1: ORDINARY LEAST SQUARE (OLS) OUTPUT

Table 4.3.1a: BANKING SECTOR

Dependent Variable: ROE
 Method: Least Squares
 Date: 05/25/17 Time: 14:50
 Sample: 2000 2016
 Included observations: 17

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.098440	0.417806	0.235613	0.8148
EPS	0.002469	0.002695	0.916270	0.3643
DPS	0.015023	0.004244	3.539581	0.0009
DPR	-0.041132	0.014539	-2.829047	0.0069
FS	1.96E-09	7.21E-10	2.717253	0.0092
R-squared	0.500018	Mean dependent var		1.446060
Adjusted R-squared	0.456541	S.D. dependent var		1.869270
S.E. of regression	1.378019	Akaike info criterion		3.572066
Sum squared resid	87.35113	Schwarz criterion		3.761461
Log likelihood	-86.08768	Hannan-Quinn criter.		3.644439
F-statistic	11.50083	Durbin-Watson stat		2.033776
Prob(F-statistic)	0.000001			

Estimation Command:

=====
LS ROE C EPS DPS DPR FS

Estimation Equation:

=====
 $ROE = C(1) + C(2)*EPS + C(3)*DPS + C(4)*DPR + C(5)*FS$

Substituted Coefficients:

=====
 $ROE = 0.0984404885635 + 0.00246925894336*EPS + 0.0150232298991*DPS - 0.0411320053126*DPR + 1.96005702238e-09*FS$

Source: E-view 7.0

Earnings per share (EPS): The coefficient of (EPS) is 0.0024. This shows that 2% positive relationship of EPS could be impacted on returns on equity of banking sector in Nigeria. It revealed very little relationship and not significant to ROE of banking sector in Nigeria as the prob-value of the t-stat for EPS is 0.364 > 0.05 critical level.

Dividends per share (DPS): DPS coefficient is 0.015 which indicated 1% positive relationship on ROE and significant to ROE of banking sector in Nigeria, the p-value of the t-stat is 0.000 < 0.05 critical level.

Dividend payout ratio (DPR): The coefficient of (DPR) is -0.041, this shows that 4% negative relationship of DPR could be impacted to returns on equity (ROE) of banking sector in Nigeria. It revealed very little relationship and significant as the prob-value of the t-stat for DPR is 0.006 > 0.05 critical level.

Firm size (FS): The coefficient of (FS) is 1.96 this shows positive relationship to ROE. It revealed not significant to ROE of banking sector in Nigeria as the prob-value of the t-stat is 0.009 > 0.05 critical level.

The Global statistics tested the overall independent variables using the R^2 , Adj R^2 , Durbin Watson (DW) and F-statistics.

The parameter revealed that the coefficients of R^2 is 0.500 which is moderate and revealed that the whole independent variables EPS, DPS, DPR, FS have 50% positive impact to ROE of banking sector in Nigeria and indicate that the model is moderately accurate and fitted at 50%. More so the coefficients of Adjusted R^2 (Adjst R^2) is 0.456 which suggest that 45% of EPS, DPS, DPR, FS could be explained by the changes in returns on equity (ROE) and the remaining 55% could not be explained due to some error in the financial system.

Durbin Watson test is 2.033776, this revealed no presence of serial correlation in the series, it is a good model for prediction.

The p-value of the F-stat is $0.000 < 0.05$ which is less than 5% significant level and greater than 95% confidence.

Table 4.3.1b: PETROLEUM SECTOR

Dependent Variable: ROE
 Method: Least Squares
 Date: 05/25/17 Time: 15:12
 Sample: 2000 2016
 Included observations: 17

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	297869.9	945316.1	0.315101	0.7581
EPS	-6905.638	4303.247	-1.604751	0.1345
DPS	124.4253	5394.525	0.023065	0.0320
DPR	489644.1	633724.8	0.772645	0.4547
FS	0.074609	0.026945	2.768984	0.0170
R-squared	0.785112	Mean dependent var		2213813.
Adjusted R-squared	0.713482	S.D. dependent var		1930512.
S.E. of regression	1033352.	Akaike info criterion		30.77444
Sum squared resid	1.28E+13	Schwarz criterion		31.01951
Log likelihood	-256.5828	Hannan-Quinn criter.		30.79880
F-statistic	10.96073	Durbin-Watson stat		2.199113
Prob(F-statistic)	0.000562			

Estimation Command:

=====
LS ROE C EPS DPS DPR FS

Estimation Equation:

=====
ROE = C(1) + C(2)*EPS + C(3)*DPS + C(4)*DPR + C(5)*FS

Substituted Coefficients:

=====
ROE = 297869.883051 - 6905.63803436*EPS + 124.425283931*DPS + 489644.148795*DPR +
0.074609425438*FS

Source: E-view 7.0

Earnings per share (EPS): The coefficient of (EPS) is -6905.63, this shows negative relationship and not significant to ROE of petroleum sector in Nigeria as the prob-value of the t-stat for EPS is $0.134 > 0.05$ critical level.

Dividends per share (DPS): The coefficient of DPS in petroleum sector is 124.42 and significant to ROE as the p-value of the t-stat is $0.032 < 0.05$ critical level.

Dividend payout ratio (DPR): The coefficient of (DPR) is 489644.1, this shows positive relationship and revealed not significant as the prob-value of the t-stat for DPR is $0.454 > 0.05$ critical level.

Firm size (FS): The coefficient of (FS) is 0.07, this shows positive relationship to FS. It revealed significant to ROE of petroleum sector in Nigeria as the prob-value of the t-stat is $0.017 < 0.05$ critical level.

For global statistics, the parameter revealed that the coefficients of R^2 is 0.785 which is moderate and revealed that the whole independent variables EPS, DPS, DPR and FS have 78% positive impact to ROE of petroleum sector in Nigeria and indicate that the model is highly accurate and fitted at 78%. More so the coefficients of Adjusted R^2 (Adjst R^2) is 0.713 which suggest that 71% of the independent variables could be explained by the changes in the dependent variable and the remaining 29% could not be explained due to some error in the financial system.

Durbin Watson test is 2.199, this revealed no presence of serial correlation in the series and it is significant and good model for prediction.

The p-value of the F-stat is $0.000 < 0.05$ which is less than 5% significant level and greater than 95% confidence.

4.3.2 Diagnostic Check Analysis

To understand the residual behaviour of indicators, the economic indicators are subjected to diagnostic check-Normality, Serial correlation, Heteroskedasticity and Stability Test.

Table 4.3.2a: Results of Diagnostic Test for Banking Sector

Diagnostic Check	Test	F-stat	Prob.	Conclusion
Normality	JB	1.534	0.464	It is normally distributed.
Serial	LM Test	4.2953	0.065	No Presence of serial correlation.
Heteroskedasticity	BPG	3.52	0.474	No Presence of heteroskedasticity.
Stability	Ramsey Reset	0.030	0.864	It is structurally stable.

Prob. Value > 0.05 , Sig. at 5% for normality, serial, heteroskedasticity and stability tests. Vice versa.
Source: Author's Result, 2017.

Table 4.3.2b: Results of Diagnostic Test for Petroleum Sector

Diagnostic Check	Test	F-stat	Prob.	Conclusion
Normality	JB	0.305	0.858	It is normally distributed.
Serial	LM Test	0.766	0.490	No Presence of serial correlation.
Heteroskedasticity	BPG	4.057	0.398	No Presence of heteroskedasticity.
Stability	Ramsey Reset	5.730	0.035	It is not structurally stable.

Prob. Value > 0.05 , Sig. at 5% for normality, serial, heteroskedasticity and stability tests. Vice versa.
Source: Author's Result, 2017.

4.4 Discussion of Findings

i. Banking Sector

The ordinary least square result for banking sector shows that (EPS, DPS, DPR and FS) have significant impact to the dependent variable ROE. Which shows that all the proxy used to measure dividend policy in the banking sector are contributing to it's performance because the p-values of the individual independent variables are all less than 5% significant level except EPS.

Holistically the global statistics results also revealed that the coefficients of R^2 is 0.500, this further shows that the whole independent variables have 50% positive impact to ROE of banking sector in Nigeria, more so (Adjst R^2) is 0.456 and suggest that 45% of the independent variables could be explained by the changes in the dependent variable and the remaining 55% could not be explained due to some error in the financial system. The Durbin Watson test is 1.893, which revealed presence of serial correlation but can be tolerated. The p-value of the F-stat for banking sector is $0.000 < 0.05$ which suggest that the whole independent variables are statistically significant. We accept the alternate hypothesis H_1 and conclude that the whole independent variables are significant to ROE of banking sector in Nigeria. The normality test determines normal distribution of the variables, the normality output for banking sector in table 4.3.2a suggest that the series distribution is normal as the p-value is 0.464 which is greater than 5% significant level. For serial correlation test the p-value of the f-statistics is 0.065 which is greater than the critical value of 5%, we conclude by accepting H_0 that there is no presence of serial correlation which is desirable. In Heteroskedasticity test the p-value is 0.474 which is greater than the critical value of 5%, therefore we accept null hypothesis that the residuals are not heteroskedastic meaning residuals are homoscedastic and it's desirable. Also the series are in functional form and statistically stable.

ii. Petroleum Sector

For petroleum sector the ordinary least square result shows that dividend per share (DPS) and firm size (FS) have significant impact to the dependent variable ROE. While earnings per share (EPS) and dividend payout ratio (DPR) does not have significant impact.

Holistically the global statistics results also revealed that the coefficients of R^2 is 0.785, this further shows that the whole independent variables have 78% positive impact to ROE of petroleum sector in Nigeria, more so ($AdjstR^2$) is 0.713 and suggest that 71% of the independent variables could be explained by the changes in the dependent variable and the remaining 29% could not be explained due to some error in the financial system. The Durbin Watson test is 2.199, which revealed no presence of serial correlation and it is moderate for prediction. The p-value of the F-stat for petroleum sector is $0.000 < 0.05$ which suggest that the whole independent variables are statistically significant to returns on equity (ROE). The normality output for petroleum sector in table 4.3.2b suggests that the series distribution is normal as the p-value is 0.858 which is greater than 5% significant level. For serial correlation test the p-value of the f-statistics is 0.490 which is greater than the critical value of 5%, we conclude by accepting H_0 that there is no presence of serial correlation which is desirable. In Heteroskedasticity test the p-value is 0.398 which is greater than the critical value of 5%, therefore we accept null hypothesis that the residuals are not heteroscedastic meaning residuals are homoscedastic and it's desirable. Also the series is not in functional form and not statistically stable.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

The study focused on dividend policy on corporate performance in Nigeria. Further came up with findings that are of salient importance in this field of study. Dividend policy is considered to be one of the most important financial decisions that corporate managers encounter. Holistically the study concludes that:

- i. Dividend per share, dividend payout ratio and firm size have significant impact on the performance of banking sector in Nigeria while only earnings per share does not have significant impact on the performance of Nigeria banking sector, but from a general perspective as shown in the ordinary least square result in table 4.3.1a dividend policy have significant impact on the performance of banking sector in Nigeria.
- ii. Dividend per share and firm size have significant impact on the performance of petroleum sector in Nigeria while earnings per share and dividend payout ratio does not have significant impact on the performance of petroleum sector in Nigeria, but from a general perspective as shown in the ordinary least square result in table 4.3.1b dividend policy have significant impact on the performance of petroleum sector in Nigeria.
- iii. The diagnostic test for banking sector shows that the series are normally distributed in both banking and petroleum sector so we accept H_0 because the influence of other omitted and neglected variables is small and at best random which is desirable. In serial correlation we conclude by accepting H_0 that there is no presence of serial correlation for banking and petroleum sector which is desirable and implies that the

variables are independently distributed. In Heteroskedasticity test we accept the null hypothesis that the residuals are homoscedastic in nature and it's desirable.

This study is in line with the works of Adelegan (2003), Miko and Kamardin (2015), Ozomba, Anichebe and Okoye (2016) and Uwaigbe (2013).

5.2 Recommendations

As a result of the findings of this study, the following are recommended:

1. This study recommended that managers should act in the best interest of investor as to reduce the agency problem, thus complete information about the dividend policies of the firm should be provided. It is argued that dividend announcements convey information to investors regarding the firm's value prospects. Thus, stock prices tend to increase when an increase in dividend is announced but tend to decrease when a decrease or omission is announced.
2. Strict adherence to interest of shareholders in choosing dividend policies that will maximize shareholders' value by management should be put in place. The decision taking authority in a company lies in the hands of managers. Shareholders as owners of the company are the principals and managers are their agents. Thus, there is principal-agent relationship between shareholders and managers therefore managers should and must act in the best interest of shareholders as consistent with shareholders' wealth maximization objectives of the firm.
3. Nigerian firms especially banks should follow a dividend payout policy that will constantly involve paying dividends annually. According to the classical school of thought who believes that dividends are paid to influence their share prices and that market price of equity is a representation of the present value of estimated cash dividends that can be generated by the equity.

4. Directors of corporate organizations should be made to update the records of shareholders including their next-of-kin to avoid a deliberate diversion or undue retention of unclaimed dividend warrants. Due procedures for the recognition and utilization of profit arising from investment of unclaimed dividend should be effected and properly accounted for.
5. Corporate firms should ensure that they have a good and robust dividend policy in place. This will enhance their profitability and attract investments to the organizations.

5.3 Contribution to Knowledge

- i. The study contributes to knowledge by investigating the relationship that exists between dividend policy and corporate performance in Nigeria. The study went further to know the impact it has on two sectors, which are: banking and petroleum in Nigeria during the period 2000-2016 (17 years).
- ii. The study used time series data approach with a more robust package E-view version 7 in the analysis. It also created insight into policy implementation capable of improving the performance of corporate firms in Nigeria.
- iii. The study produced a mixed result which thus supports various theories and dividend policies that were reviewed earlier such as: constant payout, progressive policy, alternative and residual policy.
- iv. The study suggests that future research on this topic should use multiple regression and include new variables and the sample should include other sectors and firms.

5.4 Suggestion for Further Study

The study made the following suggestions for further study:

- i. More sectors and firms should be focused on in order to ascertain the impact dividend policy have on other firms and sectors quoted in Nigeria stock exchange.
- ii. More variables apart from earnings per share, dividends per share, dividend payout ratio and firm size should be studied.
- iii. Other study should also look into the impact of dividend policy and earnings on stock prices in Nigeria.

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APPENDIX

BANKING SECTOR

OLS

Dependent Variable: ROE
 Method: Least Squares
 Date: 05/25/17 Time: 14:50
 Sample: 2000 2016
 Included observations: 17

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.098440	0.417806	0.235613	0.8148
EPS	0.002469	0.002695	0.916270	0.3643
DPS	0.015023	0.004244	3.539581	0.0009
DPR	-0.041132	0.014539	-2.829047	0.0069
FS	1.96E-09	7.21E-10	2.717253	0.0092

R-squared	0.500018	Mean dependent var	1.446060
Adjusted R-squared	0.456541	S.D. dependent var	1.869270
S.E. of regression	1.378019	Akaike info criterion	3.572066
Sum squared resid	87.35113	Schwarz criterion	3.761461
Log likelihood	-86.08768	Hannan-Quinn criter.	3.644439
F-statistic	11.50083	Durbin-Watson stat	1.893776
Prob(F-statistic)	0.000001		

Estimation Command:

=====
 LS ROE C EPS DPS DPR FS

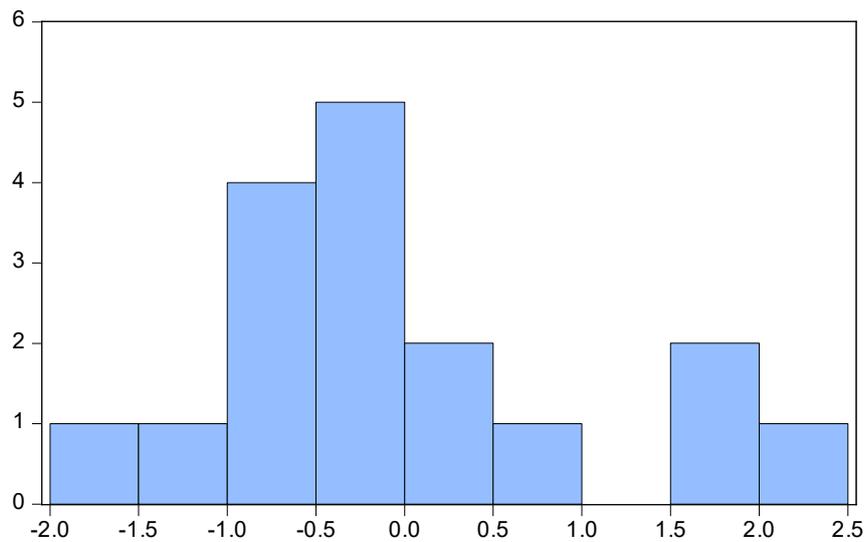
Estimation Equation:

=====
 ROE = C(1) + C(2)*EPS + C(3)*DPS + C(4)*DPR + C(5)*FS

Substituted Coefficients:

=====
 ROE = 0.0984404885635 + 0.00246925894336*EPS + 0.0150232298991*DPS - 0.0411320053126*DPR + 1.96005702238e-09*FS

Normality Test



Series: Residuals
Sample 2000 2016
Observations 17

Mean 2.61e-17
Median -0.219764
Maximum 2.002092
Minimum -1.668561
Std. Dev. 1.042970
Skewness 0.726873
Kurtosis 2.770997

Jarque-Bera 1.534124
Probability 0.464375

Serial Correlation Test

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	4.295317	Prob. F(2,10)	0.0650
Obs*R-squared	7.855610	Prob. Chi-Square(2)	0.0197

Test Equation:

Dependent Variable: RESID

Method: Least Squares

Date: 05/25/17 Time: 14:51

Sample: 2000 2016

Included observations: 17

Presample missing value lagged residuals set to zero.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.150808	0.965662	-0.156170	0.8790
EPS	0.008722	0.007053	1.236711	0.2445
DPS	-0.019610	0.019935	-0.983705	0.3485
DPR	0.026813	0.035391	0.757620	0.4662
FS	-3.25E-09	2.68E-09	-1.210722	0.2538
RESID(-1)	0.755940	0.321428	2.351822	0.0405
RESID(-2)	0.459015	0.402679	1.139904	0.2809

R-squared	0.462095	Mean dependent var	2.61E-17
Adjusted R-squared	0.139352	S.D. dependent var	1.042970
S.E. of regression	0.967575	Akaike info criterion	3.064853
Sum squared resid	9.362012	Schwarz criterion	3.407941
Log likelihood	-19.05125	Hannan-Quinn criter.	3.098957
F-statistic	1.431772	Durbin-Watson stat	1.476826
Prob(F-statistic)	0.293319		

Heteroskedasticity Test

Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	0.783892	Prob. F(4,12)	0.5571
Obs*R-squared	3.521813	Prob. Chi-Square(4)	0.4746
Scaled explained SS	1.553884	Prob. Chi-Square(4)	0.8171

Test Equation:

Dependent Variable: RESID^2

Method: Least Squares

Date: 05/25/17 Time: 14:52

Sample: 2000 2016

Included observations: 17

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.738385	1.427382	0.517300	0.6143
EPS	-0.006567	0.009382	-0.699960	0.4973
DPS	0.028245	0.027781	1.016709	0.3294
DPR	-0.043100	0.048949	-0.880520	0.3959
FS	6.14E-10	3.61E-09	0.170017	0.8678
R-squared	0.207165	Mean dependent var		1.023798
Adjusted R-squared	-0.057113	S.D. dependent var		1.404390
S.E. of regression	1.443938	Akaike info criterion		3.812553
Sum squared resid	25.01947	Schwarz criterion		4.057616
Log likelihood	-27.40670	Hannan-Quinn criter.		3.836913
F-statistic	0.783892	Durbin-Watson stat		0.990878
Prob(F-statistic)	0.557087			

Functional Test

Ramsey RESET Test

Equation: UNTITLED

Specification: ROE C EPS DPS DPR FS

Omitted Variables: Squares of fitted values

	Value	df	Probability
t-statistic	0.174450	11	0.8647
F-statistic	0.030433	(1, 11)	0.8647
Likelihood ratio	0.046968	1	0.8284

F-test summary:

	Sum of Sq.	df	Mean Squares
Test SSR	0.048019	1	0.048019
Restricted SSR	17.40457	12	1.450381
Unrestricted SSR	17.35655	11	1.577869
Unrestricted SSR	17.35655	11	1.577869

LR test summary:

	Value	df
Restricted LogL	-24.32187	12

Unrestricted LogL -24.29839 11

Unrestricted Test Equation:
Dependent Variable: ROE
Method: Least Squares
Date: 05/25/17 Time: 14:52
Sample: 2000 2016
Included observations: 17

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.730118	1.425384	0.512226	0.6186
EPS	-0.002314	0.012472	-0.185552	0.8562
DPS	0.026580	0.084704	0.313797	0.7595
DPR	-0.038577	0.096262	-0.400746	0.6963
FS	4.70E-11	3.63E-09	0.012924	0.9899
FITTED^2	0.074250	0.425626	0.174450	0.8647

R-squared	0.396725	Mean dependent var	2.071909
Adjusted R-squared	0.122509	S.D. dependent var	1.340954
S.E. of regression	1.256132	Akaike info criterion	3.564516
Sum squared resid	17.35655	Schwarz criterion	3.858592
Log likelihood	-24.29839	Hannan-Quinn criter.	3.593748
F-statistic	1.446759	Durbin-Watson stat	0.810719
Prob(F-statistic)	0.282646		

PETROLEUM SECTOR

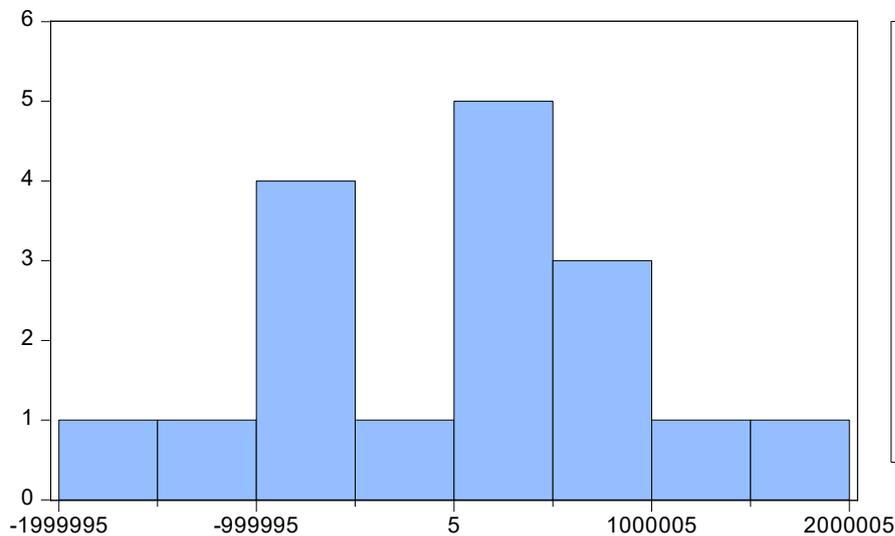
OLS

Dependent Variable: ROE
 Method: Least Squares
 Date: 05/25/17 Time: 15:12
 Sample: 2000 2016
 Included observations: 17

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	297869.9	945316.1	0.315101	0.7581
EPS	-6905.638	4303.247	-1.604751	0.1345
DPS	124.4253	5394.525	0.023065	0.0320
DPR	489644.1	633724.8	0.772645	0.4547
FS	0.074609	0.026945	2.768984	0.0170

R-squared	0.785112	Mean dependent var	2213813.
Adjusted R-squared	0.713482	S.D. dependent var	1930512.
S.E. of regression	1033352.	Akaike info criterion	30.77444
Sum squared resid	1.28E+13	Schwarz criterion	31.01951
Log likelihood	-256.5828	Hannan-Quinn criter.	30.79880
F-statistic	10.96073	Durbin-Watson stat	2.199113
Prob(F-statistic)	0.000562		

Normality Test



Series: Residuals	
Sample 2000 2016	
Observations 17	
Mean	-9.59e-11
Median	74602.11
Maximum	1567343.
Minimum	-1834351.
Std. Dev.	894909.3
Skewness	-0.227514
Kurtosis	2.526883
Jarque-Bera	0.305213
Probability	0.858467

Serial Correlation Test

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	0.766807	Prob. F(2,10)	0.4900
Obs*R-squared	2.260475	Prob. Chi-Square(2)	0.3230

Test Equation:

Dependent Variable: RESID

Method: Least Squares

Date: 05/25/17 Time: 15:14

Sample: 2000 2016

Included observations: 17

Presample missing value lagged residuals set to zero.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-231697.7	983801.6	-0.235513	0.8186
EPS	1365.857	4529.330	0.301558	0.7692
DPS	340.1451	5587.909	0.060872	0.9527
DPR	-333085.0	701190.9	-0.475028	0.6450
FS	0.009619	0.028672	0.335472	0.7442
RESID(-1)	0.447352	0.361559	1.237286	0.2442
RESID(-2)	-0.155419	0.341840	-0.454656	0.6591
R-squared	0.132969	Mean dependent var	-9.59E-11	
Adjusted R-squared	-0.387249	S.D. dependent var	894909.3	
S.E. of regression	1054038.	Akaike info criterion	30.86706	
Sum squared resid	1.11E+13	Schwarz criterion	31.21014	
Log likelihood	-255.3700	Hannan-Quinn criter.	30.90116	
F-statistic	0.255602	Durbin-Watson stat	1.724387	
Prob(F-statistic)	0.945677			

Heteroskedasticity Test

Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	0.940556	Prob. F(4,12)	0.4736
Obs*R-squared	4.057664	Prob. Chi-Square(4)	0.3983
Scaled explained SS	1.543535	Prob. Chi-Square(4)	0.8189

Test Equation:

Dependent Variable: RESID^2

Method: Least Squares

Date: 05/25/17 Time: 15:14

Sample: 2000 2016

Included observations: 17

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.07E+12	8.85E+11	2.339157	0.0374
EPS	-92044355	4.03E+09	-0.022851	0.9821
DPS	-1.69E+09	5.05E+09	-0.335084	0.7433
DPR	-6.53E+10	5.93E+11	-0.110137	0.9141
FS	-40370.37	25221.60	-1.600627	0.1354

R-squared	0.238686	Mean dependent var	7.54E+11
Adjusted R-squared	-0.015085	S.D. dependent var	9.60E+11
S.E. of regression	9.67E+11	Akaike info criterion	58.27329
Sum squared resid	1.12E+25	Schwarz criterion	58.51836
Log likelihood	-490.3230	Hannan-Quinn criter.	58.29765
F-statistic	0.940556	Durbin-Watson stat	2.822396
Prob(F-statistic)	0.473551		

Functional Test

Ramsey RESET Test

Equation: UNTITLED

Specification: ROE C EPS DPS DPR FS

Omitted Variables: Squares of fitted values

	Value	df	Probability
t-statistic	2.393884	11	0.0356
F-statistic	5.730680	(1, 11)	0.0356
Likelihood ratio	7.128931	1	0.0076

F-test summary:

	Sum of Sq.	df	Mean Squares
Test SSR	4.39E+12	1	4.39E+12
Restricted SSR	1.28E+13	12	1.07E+12
Unrestricted SSR	8.42E+12	11	7.66E+11
Unrestricted SSR	8.42E+12	11	7.66E+11

LR test summary:

	Value	df
Restricted LogL	-256.5828	12
Unrestricted LogL	-253.0183	11

Unrestricted Test Equation:

Dependent Variable: ROE

Method: Least Squares

Date: 05/25/17 Time: 15:14

Sample: 2000 2016

Included observations: 17

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1016457.	855015.9	1.188816	0.2595
EPS	-5752.335	3676.140	-1.564776	0.1459
DPS	1992.522	4634.808	0.429904	0.6756
DPR	-314047.7	633058.9	-0.496080	0.6296
FS	0.008916	0.035690	0.249812	0.8073
FITTED^2	1.90E-07	7.93E-08	2.393884	0.0356

R-squared	0.858716	Mean dependent var	2213813.
Adjusted R-squared	0.794496	S.D. dependent var	1930512.
S.E. of regression	875149.5	Akaike info criterion	30.47274
Sum squared resid	8.42E+12	Schwarz criterion	30.76682
Log likelihood	-253.0183	Hannan-Quinn criter.	30.50197
F-statistic	13.37150	Durbin-Watson stat	1.444334
Prob(F-statistic)	0.000230		