

Dividend Policy and Financial Performance of Commercial Banks in Nigeria

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[DOI: 10.56201/ijbfr.vol.12.no7.2026.pg131.144](https://doi.org/10.56201/ijbfr.vol.12.no7.2026.pg131.144)

Abstract

The study examined the effect of dividend policy on the performance of commercial banks in Nigeria. To achieve the objective of the study ex-post facto research design was adopted. The population of the study is made up of 14 listed commercial banks in Nigeria. The study used cluster sampling approach to select the eight (8) commercial banks with international authorization in Nigeria. Secondary data were used through the use of annual reports and accounts of the selected commercial banks. Data were analyzed using panel data based multiple regression analysis. The findings revealed that (i) Dividend payout ratio has no significant impact on the performance of quoted commercial banks in Nigeria. (ii) Earnings per share has a significant impact on the performance of quoted commercial banks in Nigeria. (iii) Dividend retention ratio has a significant impact on the performance of quoted commercial banks in Nigeria. (iv) Dividend yield ratio has a significant impact on the performance of quoted commercial banks in Nigeria. The study recommends that the board of directors should formulate and revise dividend policy by taking into consideration the factors that have been evidenced to exercise significant influence on dividend payment. Board of directors should consider increasing the dividend payment to shareholders, by giving attention to the factors of board independent, board size, profitability, leverage, firm size, financial crisis and political factor. This is important, as the dividend policy is a crucial factor in retaining existing investors as well as attracting new investors. Also, management should adopt optimal dividend policy that would better the lots of shareholders both in the short-run and long-run should be adopted.

Keywords: Dividend payout ratio, earnings per share, dividend retention ratio, dividend yield ratio and return on asset.

1.0: Introduction

Dividend policy occupies a major role in the financial management of many banks in Nigeria. The onerous task on the side of the Directors as shareholders' fund manager is, to be able to strike a balance between the proportion of net earnings to retain for investment purposes and the amount of earnings to appropriate as dividend to shareholders (George, 2015).

Dividend policy refers to the company regulation and guidelines on dividend payments to shareholders of the organization. It determines what proportion of earnings is paid out to shareholders by way of dividends and what proportion is ploughed back in the firm itself for

reinvestment purposes. Having a dividend policy is very essential for both the company and shareholders (Lawalson, 2012). However, the implication of dividend policy has become an important concept among shareholders, due to the current dynamic and ever-changing business environment. Dividend policy remains one of the most important financial policies not only from the viewpoint of the company, but also from that of the shareholders, the consumers, employees, regulatory bodies and the Government (Adebisi&Osibanjo, 2016). The dividend policy is set to encourage retention for investment and at the same time, it canvasses for dividend pay-out. This is because, it is widely believed, against the position of Miller and Modigliani (1961) as cited in Gill, Biger and Tibrewala (2010), that payment of dividend to shareholders has a signaling and multiplier effect of pushing up the share price, though reducing available cash for investment. It is easier to monitor and figure out the impact of the dividend policy in the entire performance or operation of the business. Therefore, dividends are payments made by the corporation to its shareholders when a company earns a project or surplus and such money can be used as retained earnings. Hence the ability of the company to pay dividend can be stated to measure the soundness and profitability of a company (Ademolekun, 2013). The importance of dividend policy on the performance of quoted banks can never be over-emphasized. Dividend policy occupies a major role in the financial management of business organizations. The onerous task on the side of the Directors as shareholders' fund manager is, to be able to strike a balance between the proportion of net earnings to retain for investment purposes and the amount of earnings to appropriate as dividend to shareholders (Nuredin, 2012). The dividend policy is set to encourage retention for investment and at the same time, it canvasses for dividend pay-out. This is because, it is widely believed, against the position of Miller and Modigliani (1961) as cited in Gill, Biger&Tibrewala (2010), that payment of dividend to shareholders has a signaling and multiplier effect of pushing up the share price; though reducing available cash for investment. Dividend policy is one of the succeeding and notable instruments for evaluating the performance and existence of a company. Dividend policy remains one of the most important financial policies not only from the perspective of the company, but also from that of the shareholders, the consumers, employees, regulatory bodies and the government (Uwuigbe&Jararu, 2012). Also, dividend policy is an after-tax deduction of the share of a firm's earnings to the shareholders and this also influence shareholders perception about changes in the firm's performance. This is where the conflict of interest arises since shareholders would have loved greater part of the profit to be distributed as dividend and the managers may prefer retaining most of the earning for the future use. Therefore, dividend pay-out ratio becomes critical in order to balance up the shareholders wealth and firm's growth. It is usually articulated as a percentage of nominal value of the company's ordinary share capital or as a fixed amount per share. In corporate finance, the finance manager is generally thought to face two operational decisions: the investment and the financing decisions. In view of the above, this research is initiated in order to empirically investigate the effect of dividend policy on the performance of selected quoted commercial banks in Nigeria. Every corporate organization is faced with problems at various times and at different level of its development ranging from internal to external factors. Banks are particularly faced with problem when making dividend policy decision. The satisfaction of one of the components of either dividend payment or retention of dividend policy affects its corporate objectives. The most pertinent question to be answered here is how much cash should firms give back to their shareholders? Should corporations pay their shareholders through dividends or by repurchasing their shares, which is the least costly form of pay-out from tax perspective? (Adebola, 2015).

Reductions in dividends payout rates adversely affect a firm's share price, and in such cases the share prices of firms in the same industry as investors may interpret such reductions as

industry affected. Dividend is also often mixed with capital investment decisions. Investors' characteristics determine whether dividend payment is necessary or not. Some prefer current income streams with higher relative tax rates to differed income, capital gains, with lower relative tax rates in the present inflationary situation. Use of margin loans for equity investment purposes, require the generation of current regular income to service and pay such cash loans. The present harsh economic environment, high interest rate, low income, high cost of goods, and delayed salaries makes it necessary for investors to receive current regular income to augment earned income and meet socio-economic needs. Dividends can only be paid when a company has enough cash to do so, which is not meant to be so in literal terms (Allen & Rachim, 2016). In order to proffer solution to the above problem, the study analyzed the effect of dividend policy on the performance of selected quoted commercial banks in Nigeria.

The specific objectives of the study are to;

- i. Examine the effect of dividend payout ratio on the performance of listed commercial banks in Nigeria.
- ii. Determine the effect of earnings per share on the performance of listed commercial banks in Nigeria.
- iii. Ascertain the effect of retention ratio on the performance of listed commercial banks in Nigeria.
- iv. Examine the effect of dividend yield on the performance of listed commercial banks in Nigeria.

2.0: Review of Related Literature

Concept of Dividend Policy

Dividends are distributions of a company's profit distributable to its shareholders. The amount of dividend depends on the number of shares owned by the shareholders. Cash payment is paid per share while stock dividends involve giving out shares in form of bonus to existing shareholders. Increasing dividend payment, a company may largely attract a good number of lightly taxed investors and will in-turn increase the share price of the company. It is the policy a company uses to structure its dividend payout to shareholders. Some researchers suggest that dividend policy may be irrelevant, in theory, because investors can sell a portion of their shares or portfolio if they need funds (Ogundele & George, 2016).

In the word of Booth and Cleary (2010) dividend Policy connotes a framework designed for making decision regarding the percentage of profit to be distributed and the part to be retained in the company for investment purpose. As viewed by Pandey (2010) dividend is part of the company's net earnings distributed to shareholders as return on their claim in the company usually based on recommendations by the board of directors. Dividend is an appropriation of profits distributable to shareholders after making appropriate deduction of tax and fixed interest obligation related to debt capital. Dividend disbursement is one of the key factors that establish that a company is practicing the required corporate governance. Dividend policy decisions have also been identified as one of the primary elements of corporate finance policy (Uwuigbe, 2012). As explained by Kania & Bacon (2015) dividend policy refers to guideline, regulation and policies that a company make use of in deciding how to embark on dividend payment. In Dividend Policy researches, the most popular parameter chosen, as proxies for dividend policy are dividend payout and dividend yield. Dividend payout has been described as the ratio of total cash dividend distributable to common shareholders over the available net income for the shareholders whereas, the Dividend yield, can be described as profitability indicator shown as a cash dividend per share for common stocks divided by the per share market value. It can also be simply

determined as dividend per share divided by the market value per share. There are four broad dividend policies in practice including residual payment policy, stable predictive dividend policy, Constant payout ratio policy, Low plus extra or bonus dividend policy (Yusuf&Suleman, 2015) The term dividend refers to that part of profits of a company which is distributed by the company among its shareholders. It is the reward of the shareholders for investments made by them in the shares of the company. The investors are interested in earning the maximum return on their investments and to maximize their wealth. A company, on the other hand, needs to provide funds to finance its long-term growth. If a company pays out as dividend most of what it earns, then for business requirements and further expansion it will have to depend upon outside resources such as issue of debt or new shares. Dividend policy of a firm, thus affects both the long-term financing and the wealth of shareholders (Nwachukwu, 2016) Pandey (2013), points out the importance of dividend policy as that which determines the amount of earnings to be distributed to shareholders and that which is to be retained. Watson and Head (2014), sees dividend policy has been primarily concerned with the decision 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 shareholders of the company. Chandra (2014) sees dividend policy as that which determines what proportion of earning to be paid to shareholders by way of dividends and what proportion to be ploughed back in the firm for reinvestment purposes.

Forms of Dividends

i. Cash dividends

Before the advent of the electronic fund transfers, these were mostly done by sending of dividend warrants to the shareholders, who in turn deposit the warrants to their bank accounts. Most banks accept dividend warrant deposits only to current accounts. The dividends are paid to the shareholder net of withholding tax. The board of directors' vote and propose on the declaration of dividends. It is not paid immediately because transfer of stock from one holder to another require a current list of stockholders be prepared. For this reason, there is a date of declaration of dividend on meeting of the board of directors. There is a date of record for closure of shareholder register. Then there is a date of payment where checks are mailed to shareholders. Shareholders approve the dividends at the Annual general meeting thereby concluding the declaration of cash dividends. A declared cash dividend is a not a liability rather as part of the shareholder 's equity since such a decision can be recalled. Cash dividends are not paid on treasury stock (Kelechi, 2014).

ii. Property Dividends

A property dividend is a nonreciprocal transfer of non-monetary assets between an enterprise and its owners. It is payable in form of assets other than cash. They may be in form of merchandise, real estate, or investments. Board restates assets at fair value of the property it will distribute recognizing any gain or loss. Fair value measured by the amount that would be realizable in an outright sale at or near the time of the distribution. Such amount is quoted at market prices or other available evidence. Recording property dividend at fair value allows for comparisons of other dividend rates in future.

iii. Liquidating Dividends

This is a form of dividend that uses paid in capital in early years as a basis for dividend payments. As a result, it reduces the corporate paid in capital. Without proper disclosure, shareholders may believe the corporation has been operating at a profit. This type of misunderstanding can be avoided by requiring a clear statement of the basis of every dividend

to accompany the dividend check. Any dividend not based on earnings must be a reduction of corporate paid-in capital and, to the extent, it is a liquidating dividend (Alexander 2016).

iv. Stock Dividends

It is a form of dividend whereby management decides to capitalize part of the earnings and retain them in the business on a permanent basis by issuing stock dividend. No assets are distributed and each shareholder has exactly the same proportionate interest in the company and same book value after the stock dividend was issued as before it was declared. A stock dividend does not change the total stockholders' equity. Earnings are appropriated equally to shareholders in relation to the amount of stock they hold with the company. When a corporation wants to raise money from investors, it can issue debt (bonds and notes) and equity (common stock, preferred stock and warrants). All corporate dividend payments must come from retained earnings -- the accumulated profits of the company. Common stock represents an ownership share of a corporation that entitles shareholders to participate in the governance and growth of the company. The benefits of company growth include higher stock prices and, optionally, common stock dividends and dividend 19 increases. A company can choose to pay common stock dividends in the form of cash or additional stock, but dividends on common stock are not required and can be changed by a vote of the company's board.

v. Stock Split Dividend

Another form of dividend payment that increases the number of share outstanding for each shareholder but consequently reduces the par value of each share. A stock dividend of more than 20–25 percent of the number of shares previously outstanding is called a large stock dividend or stock split. A stock split can be compared to a reverse stock split which reduces the number of shares outstanding and increases the per share price. The main purpose of a stock split is to increase the marketability of the stock and for management to take control.

Vi Preferred Stock Dividends

Preferred stock also represents an ownership interest in a corporation, but exchanges the right to participate in company growth and governance for high-fixed-dividend payments. Preferred dividends normally pay 4 to 8 percent dividend yields (the annual pay-out divided by the stock price). Because the payments are fixed, preferred dividends don't benefit from company growth. Corporations must pay preferred dividends in full before the corporation shells out any common dividends for the period. Cumulative preferred stock requires a corporation to make good on any missed dividends before resuming payment of common stock dividends. Qualified Dividends Most dividends issued by U.S. corporations qualify for lower capital-gains tax rates. The main requirement is that the issuer is not a non-profit and that it pays taxes on its earnings. Many foreign stock dividends also qualify for the tax break, as long as they meet the same standards and you can readily trade their shares in the United States. To take advantage of the tax break, you must hold common stock for 61 days surrounding the ex-dividend date and the first date on which the stock trades without the current dividend. Preferred stock that pays a dividend based on a period exceeding 366 days requires a 91-day holding period. You treat cash dividends from nonqualified shares as ordinary income, taxable at your marginal rate (Dele, 2014).

Vii Fund Dividends

A mutual fund must pass along all the dividends, interest and capital gains it earns over the course of a year. In return, the fund doesn't pay income taxes -- which privilege passes

through to shareholders. Fund payments that result from dividends on stock are qualified if the stock pays qualified dividends.

Dividend Policy and Financial Performance

Dividend policy is a critical factor that affects company financial performance; there is robust and affirmative association between dividend policy and firm performance. Financial performance of most firms improves after paying dividends; thus, there is association between financial performances of a firm and dividends paid. Dividend policy is one of the key variables that affects company performance. Corporations ought to ensure that they have a suitable and healthy dividend policy in place so as to improve their performance and attract more investments (Naum, 2014).

According to Chumari (2014) there is an affirmative association among profitability, liquidity and firm performance. Cash dividends have a linear association with bank liquidity as measured by its net cash flows. Musyoka (2015) found that dividend policy had a positive impact on financial performance of firms listed on the Nigeria Stock Exchange (NSE).

Theoretical Review

Dividend Relevant Theory

This theory was developed by Walters and Gordons in 1964. The theory states that dividend policy is independent of shareholder wealth. This theory suggests that dividend policy significantly influence shareholders wealth. On the strength of relevant dividend policy, different arguments emerged such as information content of dividend policy which contends that dividend policy signals the performance of the firm, birds in the hand argument noted by Linter (1962) and Gordon (1963), posit that dividend is more certain than future capital gain. Agency cost of dividend policy emphasis on the conflict of interest between the principal and the agent but suggests reduction of free cash flows in the hands of the agent through payment of cash dividend. Clientele effect noted that portfolio choice is influenced by investor's decision between dividend and capital gain. . According to Walter's model, the company is allowed to use only retained earnings to finance new investment projects. The external finance is not considered a reliable source of investment. The cost of capital and the rate of return on investment always remain the same. Even when a new investment decision is undertaken, the risks of the business don't change. There is a direct connection between making investments and obtaining dividends. One cannot ignore the fact that a corporation is the only entity that can pay dividends or retain earnings. For the company, it is more beneficial to retain earning to get higher profits. It is also beneficial to the investors under the condition that the organisation uses these profits to multiply them. Hence, this theory underpins this study because it examines the various factors that determine the dividend policy.

Empirical Review

Ideweke and Murad (2018) carried out a study on dividend policy and financial performance: a study of selected deposit money banks in Nigeria. This study investigates the relationship between financial performance and dividend policy for a sample of fifteen Deposit Money Banks quoted on the Nigeria Stock Exchange 2009 to 2014. Panel data regression analysis was used as the method of analysis, and the model was estimated using the Pooled Least Squares estimation technique. The study revealed that there is a positive and significant relationship between dividend payout ratio and financial performance. On the contrary, there is a negative and insignificant relationship between dividend yield and financial performance. The study recommends that since there is a positive and significant relationship between dividend payout ratio and financial performance, firms should strive to maintain healthy and

a stable dividend policy. This could be attained by investing in projects that give positive Net Present Values, thereby generating huge earnings, which can be partly used to pay dividends to their equity shareholders. It is also recommended that since dividend yield is not affected by financial performance, investigations should be made to ascertain other factors that affect dividend yield. Morakinyo (2018) conducted a study on determinants of dividend policy of listed deposit money banks in Nigeria. The study examines the factors that influence the dividend policy of Nigerian Deposit Money banks using panel data analysis for the period of ten years (2006 to 2015). The population of the study comprises all the 21 Deposit Money Banks in Nigeria as at 31 December, 2015. The sample of the study comprises of all 15 deposit money banks listed at the Nigerian Stock Exchange as at 31st December 2015. The data used for the study was extracted from secondary sources. The data was extracted from the financial reports of the banks within the period of the study. The data was analysed using panel data regression. The study found that board size, leverage, financial crisis and political factor dummy variables had negative impact on the dividend policy while other variables had positive impact. The study concluded that the independent variable have influence on Dividend policy. The study recommended that the management team needs to strive for higher profitability, larger firm size and lower debt levels to satisfy the shareholders' goal of wealth maximization in the form of higher dividends. Akinleye and Ademiloye (2018) carried out a study on dividend policy and performance of quoted manufacturing firms in Nigeria. The objective of the study was to examine the impact of dividend policy on performance of quoted manufacturing firms in Nigeria, with focus on five manufacturing firms including Nestle Nigeria Plc, PZ Cussons Nigeria Plc, Unilever Nigeria Plc, Nigerian Breweries Plc, Seven-Up bottling company Plc. The study covered a period of five years spanning from 2011 to 2015. The study made use of panel data estimation techniques including pooled OLS estimation, fixed effect estimation, random effect estimation, alongside post-estimation test such as restricted F-test and Hausman test. The result of the study revealed that dividend per share exert insignificant positive impact on firm's performance measured in terms of return on capital employed ($\beta=0.1748477$, $p=0.823$), and that the impact of dividend payout ratio on firms performance is negative and insignificant ($\beta=-6.702262$, $p=0.247$). The study established therefore that dividend policy does not play significant role in the determination and/or adjustment of performance of manufacturing firms in Nigeria. Thus, management of manufacturing firms should be circumspect to avoid being misguided on the contribution of dividend policy to performance, which could culminate into distribution of larger fraction of their earnings than necessary. Also, there is need to design threshold of dividend distribution to avoid eroding fund that can be harness for future finance of the organization.

Omilabu, Alao and Situ (2018) carried out a study on effect of dividend policy on the profitability of selected banks in Nigeria using a time frame of 2011 to 2015. The study adopted ex post facto research design while the data used were extracted from the annual reports and accounts of the sampled banks. The data obtained were analysed via descriptive analysis of variables while multiple regression analysis was employed for the estimation of the model for testing the hypothesis. The result revealed that banks' dividend payout ratio and total assets have significant effect on the profit after tax of banks in Nigeria while it was reported that banks' dividend per share has no significant effect on their profit after tax. The study recommended that it is imperative for Nigerian banks to always find ways of increasing the percentage of distributable earnings being paid to the ordinary shareholders in the form of dividends as well as finding means of boosting their capital base in order to enhance and improve the profit after tax of the banks while the banks should be strategic in the determination of the amount of gross dividend being declared on every issued ordinary share ranking for dividend.

Usman and Olorunnisola (2018) carried out a study on effects of dividend policy on corporate performance of deposit money banks in Nigeria. The main objective of this study is to evaluate the effects of dividend policy on corporate performance in selected Nigeria Deposit Money Banks (NDMBs). Purposive random sampling method was used to select seven out of the sixteen quoted NDMBs based on the size of their capital. Secondary data used were obtained from annual reports of sampled NDMBs and Nigerian Stock Exchange over a period of ten years (2009-2018). The variables used in this study included Retained Earnings (RE), Earning Per Share (EPS), Dividend Per Share (DPS), Return On Equity (ROE), Dividend Payout (DPO), and Market Value (MV). Collected data were analyzed using both descriptive and inferential statistics such as the mean, Standard deviation and Panel regression. Panel regression was used to assess the effects of dividend policy on corporate performance of NDMBs. The results showed that RE, EPS and DPS had positive significant effect on CP with coefficient value of 0.459; ($p < 0.000$), 0.003; ($p < 0.003$), 0.788; ($p < 0.001$) respectively with Adj. $R^2 = 0.311$. The research concluded that dividend policy has significant effect on corporate performance of NDMBs. This study recommended that, managers should improve their working capital and measure them with fair value. Also, banks should increase the level of asset capital to improve profitability. They should be consistent with dividend payout ratio of the shareholder of NDMBs.

Harley and Ayodele (2017) conducted a study to investigate the impact of dividend policy on performance of quoted companies in a developing economy. The objective of the study was to empirically test some ratio variables likely to affect dividend policy on a multivariate methodology. The sample size of this study was twenty quoted firms in a developing nation actively operating within 2005 to 2016 in the stock market. It was deduced that there is a significant positive impact of dividend pay-out ratio (DPS) on return on asset of .176. One percent increase in dividend payout ratio will lead to a corresponding increase on the average of 0.176 in return of asset (ROA). From our analysis, we found out that the coefficient of determination (R^2) captured a significant portion of the models applied in the study but model two become stronger. We also found out that there is a positive relationship between ROE and DPS of .540 and the slope of the regression line is .129. This indicates that one percent increase of DPS will lead to a corresponding increase on ROE. The study there concluded that profit after tax should be considered sensitive in relation to dividend payment. Turakpe and Legaaga (2017) conducted a study on effect of dividend policy on corporate performance. The study adopted multiple regression models to examine the selected companies namely Nigerian Breweries Plc, Zenith Bank Nigeria Plc and Guaranty Trust Bank Plc from 2011-2015. The result of the analysis showed that for Nigerian Breweries, profit after tax and return on asset are positively related to dividend while earnings per share has negative relationship with dividend. The result for Zenith Bank shows that earnings per share and return on asset are positively related to dividend while profit after tax has negative relationship with dividend. The result for Guaranty Trust Bank shows that profit after tax has positive relationship with dividend while earnings per share and return on asset are negatively related to dividend. From the findings, the study concludes by agreeing with most of the dividend relevant proponents that dividend matters to corporate performance even though with varying results that tends to support other theories such as dividend residual theory. It therefore recommends that managers must review the opinion of their core investors in deciding dividend policy that meets with their expectations.

3.0 Methodology

Research Design

The research design used for this study is *ex-post facto*. Furthermore, *ex-post facto* design is used when researcher attempts to identify the cause and effect of the relationship between

two or more variables. Also, *ex-post facto* is used when the researcher adopts secondary data for the study.

The population of this study consists of the fourteen (14) listed commercial banks among the twenty-two (23) consolidated commercial banks in Nigeria banking industry as at December 2025. The study used cluster sampling approach to select the eight (8) commercial banks with international authorization in Nigeria. The source of data for this study is secondary data. The data was sourced from annual reports of the selected commercial banks in Nigeria. The reason for using the secondary data is based on the fact that the data was assumed to be reliable, suitable and adequate for the nature, scope and objectives of the study.

Panel data regression analysis was used to analyze the hypotheses. The regression was used to ascertain the causes and the effect of the relationship that exist between variables. To some measures, dividend policy was proxied by Dividend payout ratio (DPR), Earnings per share (EPS), Dividend retention ratio (DRR) and Dividend yield (DY) was used over the period while the Performance of quoted commercial banks was proxied by Return on asset (ROA).

The model for the study is stated thus:

$$ROA = f(DPR, EPS, DRR, DYR) \dots\dots\dots 3.1$$

$$ROA = \beta_0 + \beta_1 EPS + \beta_2 DPR + \beta_3 DRR + \beta_4 DYR + U_t \dots\dots\dots 3.2$$

Where;

ROA = Return on Asset

DPR = Dividend payout ratio

EPS = Earnings per share

DRR = Retention ratio

DYR = Dividend yield

β_0 = intercept

β_1 = parameter estimate

U_t = stochastic variables

4.0 Results and Discussion

Data Presentation

The data extracted were estimated based on the panel data regression analysis to determine the effect of the independent variables on the dependent variable. Dividend payout ratio (DPR), earnings per share (EPS), dividend retention ratio (DRR) and dividend yield ratio (DYR) were used as the independent variables while return on asset (ROA) was used as the dependent variable. The adjusted R square which is the coefficient of determination and the F statistic was used to ascertain the significance of the overall model. Specifically, the probability of the F-statistic test was used to test the hypotheses of the study to determine the relationship between the variables. The data for the various variables are shown in the appendix table below.

Test of Hypotheses

Panel Data Test

Dependent Variable: ROA

Method: Panel EGLS (Cross-section random effects)

Date: 03/29/21 Time: 10:30

Sample: 2010 2024

Periods included: 15

Cross-sections included: 8

Total panel (balanced) observations: 120

Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.225568	0.087205	2.586622	0.0106
DPR	0.007484	0.004070	1.838910	0.0678
DRR	-3.56E-05	1.50E-05	-2.368325	0.0191
DYR	-0.021829	0.006908	-3.159990	0.0019
EPS	0.016261	0.007479	2.174100	0.0312

Effects Specification			
		S.D.	Rho
Cross-section random		0.245329	0.9784
Idiosyncratic random		0.036439	0.0216

Weighted Statistics			
R-squared	0.085834	Mean dependent var	0.006977
Adjusted R-squared	0.062243	S.D. dependent var	0.037983
S.E. of regression	0.036782	Sum squared resid	0.209703
F-statistic	3.638385	Durbin-Watson stat	0.773912
Prob(F-statistic)	0.007298		

Unweighted Statistics			
R-squared	0.052806	Mean dependent var	0.210197
Sum squared resid	12.15233	Durbin-Watson stat	0.013355

Source: E-view Computation

The panel data result shows the effect of dividend policy (DPR, EPS, DYR, DRR) on performance of quoted commercial banks proxied by return on asset (ROA). The coefficient of determination R-square of 0.086 implied that 8.6% of the sample variation in the dependent variable ROA is explained or caused by the explanatory variable (DPR, EPS, DYR, DRR) while 91.4% is unexplained. This remaining 91.4% could be caused by other factors or variables not built into the model. The value of R-square shows that there is very low relationship between ROA and DPR, EPS, DYR and DRR. Consequently, the value of the adjusted R^2 is 0.062. This shows that the regression line which captures 6.2 per cent of the total variation in ROA is caused by variation in the explanatory variable specified in the model. The F-statistic was also used to test the overall significant of the model. The F-value of 3.638385 with p-value of 0.007298 is an indication that the model is statistically significant at 5 percent level of significant. Finally, the test of autocorrelation using Durbin-watson shows that the Durbin-watson value of 0.773912 falls inside the conclusive region of Durbin-watson partition curve. Hence, we can clearly say that there is no sign of autocorrelation.

Hypothesis one

H₀₁: Dividend payout ratio has no significant impact on the performance of quoted commercial banks in Nigeria.

To test the hypothesis:

The F-statistic with 3.638385 has probability of 0.0678 level of significance. Since the probability of the F statistics is greater than 5% level of significance, we would accept the

null hypothesis, H_0 and therefore conclude that dividend payout ratio has no significant impact on the performance of quoted commercial banks in Nigeria.

Hypothesis two

H₀₂: Earnings per share has no significant impact on the performance of quoted banks in Nigeria

To test the hypothesis:

The F-statistic with 3.638385 has probability of 0.0312 level of significance. Since the probability of the F-statistics is less than 5% level of significance, we would reject the null hypothesis, H_0 and therefore conclude that earnings per share has a significant impact on the performance of quoted banks in Nigeria.

Hypothesis three

H₀₃: Dividend retention ratio has no significant impact on the performance of quoted banks in Nigeria

To test the hypothesis:

The F-statistic with 3.638385 has probability of 0.0191 level of significance. Since the probability of the F statistics is less than 5% level of significance, we would reject the null hypothesis, H_0 and therefore conclude that dividend retention ratio has a significant impact on the performance of quoted commercial banks in Nigeria.

Hypothesis four

H₀₄: Dividend yield ratio has no significant impact on the performance of quoted commercial banks in Nigeria

To test the hypothesis:

The F-statistic with 3.638385 has probability of 0.0019 level of significance. Since the probability of the F statistics is less than 5% level of significance, we would reject the null hypothesis, H_0 and therefore conclude that dividend yield ratio has a significant impact on the performance of quoted commercial banks in Nigeria.

5.0 Conclusion and Recommendations

Conclusion

This study examined the effect of dividend policy on the performance of quoted commercial banks in Nigeria. The independent variable adopted in this work is dividend policy which proxies include; dividend yield, dividend pay-out ratio, earnings per share and dividend retention ratio on the other hand, the study adopted return on asset (ROA) as the dependent variable. Ordinary Least Square (OLS) based multiple regression technique as the analytical tool was used in this analysis. From the findings of the study above, it became clear that there exists a positive relationship between the components of dividend policy and performance (ROA) of quoted commercial banks in Nigeria. It can therefore be concluded that dividend retention, earnings per share and dividend yield have significant effect on the performance of commercial banks in Nigeria, while dividend pay-out ratio has a positive and insignificant effect on the performance of quoted commercial banks in Nigeria. This means that commercial banks should focus more on dividend retention, earnings per share and dividend yield so as to improve the performance of banks, and also look into dividend payout so as to bring about a significant effect in performance commercial banks in Nigeria.

Recommendations

Based on the findings made above, this study recommends the following;

- (i) The board of directors should formulate and revise dividend policy by taking into consideration the factors that have been evidenced to exercise significant influence on dividend payment.
- (ii) Board of directors should consider increasing the dividend payment to shareholders, by giving attention to the factors of board independent, board size, profitability, leverage, firm size, financial crisis and political factor. This is important, as the dividend policy is a crucial factor in retaining existing investors as well as attracting new investors.
- (iii) Management should adopt optimal dividend policy that would better the lots of shareholders both in the short-run and long-run should be adopted.
- (iv) Managers should devote adequate time in designing a dividend policy that will enhance firm's performance and shareholder value. Again, banks should review its dividend policy in order to reduce agency cost and maximize the value of banks.
- (v) Management should adopt good dividend payout policies as it will attract investors. Thus, increases the value of financial performance of deposit money banks in Nigeria.

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