

Influence of Dividend Policy on Shareholder's Wealth among Nigerian Deposit Money Banks

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ABSTRACT

The study examines the influence of dividend policy on the shareholders' wealth among listed deposit money banks in Nigeria from 2011-2020. The specific objectives are to; examine how dividend per share influences the market share price of listed banks in Nigeria and investigate the impact of dividend payout on the market price of listed banks in Nigeria. Secondary data was extracted from annual reports of samples 9 banks from 2011 to 2020. Descriptive statistics, Correlation analysis and fixed effect panel regression methods to analysed the data. The overall results indicated that dividend policy maintained a favourable influence on market share price and earnings per share (F-stat. 12.782; corresponding P-value = 0.001). The results further indicated that dividend per share and market share exerts a positive and considerable relevance to market share. This study concluded that that dividend per share positively impact on the shareholders wealth through increase in the market share price of the banks suggesting that investors use information on the dividend per share in making their investment decision which is reflected in the price offered for a firm share. This study recommended among others that the dividend per share and dividend payout should be given higher attention in the banks dividend policy as it has the capacity to create more value for the banks.

Keywords: Dividend policy, dividend payout, market share price

INTRODUCTION

A crucial goal of any corporate entities is to maximize the value of shareholders' investment in the firm. Investment decisions involve the selection of positive net present value projects. A dividend payment provides cash flow to the shareholders but reduces firm's recourses for investment. The question remains whether paying out of earnings would essentially create value for the shareholders or not. Establishing this link is crucial for the goal and survival of corporate firms especially the Nigeria Deposit money banks (GejaLakshmi & Azhagaiah,2015). This is because a significant creation by an enterprise

would attract potential investors to the firm which would make raising money for the business growth and expansion seamless.

The link between dividend policy and shareholders wealth has attracted significant attention in literature as far back as more than six decades ago. The economic argument for investor's preference for dividend income was offered and there is no doubt that dividend policy is an integral part of the financial management decision of a business firm. Similarly, it is often said that the goal of any business is to earn profit and the division of this profit is an element of a firm's financial strategy.

However, today companies belong normally to different people or groups of people with individual views on the business and how to divide the firm's profit between pay outs and retention. It, therefore, becomes difficult to make the most appropriate decision about the payout policy to be followed as it no doubt affects how each of the diverse investors place value on the firm. This poses a big problem for managers. For instance, some shareholders prefer to be paid dividends every year for investing in other profitable businesses while other shareholders would like to invest in the future and thus, prefer that the dividends be retained by the company for re-investment. Since firm's management deals with competing interests of various shareholders, the kind of dividend policy they adopt may have either positive or negative effects on the share prices of the company.

According to Miller and Modigliani (1961), the effect of a firm's dividend policy on the current price of its shares is a matter of considerable importance, not only to management who must set the policy, but also to investors planning portfolios and to economists seeking to understand and appraise the functioning of the capital market. It is this basis that prompted the study.

Some Nigeria Deposit money banks have in recent times faced with challenges due to the inability to meet up with the capitalization requirement set by the Central Bank of Nigeria which serves as the regulatory agency for the Nigeria banks. This is manifested in the liquidation and merger of some prominent banks in Nigeria among which are the Skye Bank PLC and Diamond Bank. While Skye Bank had to be taken over by the Asset Management Corporation of Nigeria, Diamond bank had to merge with the access bank. This may not be unconnected to their inability to create adequate value for their shareholders. Given the literature argument with dividend relevant and dividend irrelevance theory, adopting favourable dividend policy may serve as a strategic decision that can help the banks to maximize the wealth of the shareholders.

Several attempts to empirically establish how shareholders wealth is influenced by the dividend policy have produce mixed results in developing and developed countries. Agarwal (2014); Enekwe et al, (2015) suggested that dividend policy had positively affected shareholders wealth. On the contrary Salisu, (2012); Chidi et al (2013) and Ramadan, (2013) observed that dividend policy had negatively affected shareholders wealth. Some of these studied had mixed result, some outcome are negative while some

are positive. Sequel to these mixed results and findings, this paper critically analyzed the effect of dividend policy on shareholders wealth in Nigeria. The following research question was raised and to be answered in the course of this research work. (i) To what extent does dividend per share influence the market share price of listed Nigerian Deposit Money Banks? (ii) In what way does dividend payout influence the market share price of listed Deposit Money Banks in Nigeria? The specific objectives are to investigate the influence of dividend per share on the market share price of listed Deposit Money Banks in Nigeria; and examine the influence of dividend payout on market share price of listed deposit money banks in Nigeria; The outcome of the study would provide alternative strategic decision to the management of Nigeria Deposit Money Banks on how to improve the shareholders wealth in the Nigeria banking industry.

LITERATURE REVIEW

Conceptual Review

Dividend policy refers to how a firm manages and controls the elements such as earnings, dividend payout, and retention ratio. In the subject of financial management, dividend policy is a critical problem. Since a dividend denotes a company's primary cash payments, it is one of the most important factors to consider when deciding how to invest retained earnings. However, paying dividends to stockholders reduces a company's ability to invest retained earnings (Beaker & Powell, 2005). Dividend is defined as the part of a firm's net earnings recommended by the board of directors to be given to shareholders in proportion to their shareholdings in the company. In other terms, a dividend is the portion of a corporation's profit (after taxes) that is delivered to its shareholders (Pandey, 2008). It is a payment made to equity owners in exchange for their investment in the company.

Uwuigbe et al. (2012) sees dividend policy of a firm as determining the division of its earnings between payments to shareholders and what it retains for its future operations. This entails striking a balance between future growth and payment of current dividends to firm's shareholders.

Dividend Per Share

Dividends are returns on investment to shareholders who have stake in the business of a firm. Every firm should decide whether to keep its profit as retained earnings or pay out as dividend. According to Kurfi (2006), dividend may take different forms such as cash dividends, scrip dividends, share split and share consolidation. ICAN (2009) argues that the critical question in dividend policy is whether profits should be distributed as dividends or retained within the firm to finance future expansions and growth. If there are investment opportunities, should the firm use the monies available for dividend to finance these investments or should it pay dividends and borrow later to finance them?

In finance, dividend refers to the distribution of earnings to the shareholders. The profits generated by a firm are invested further either in the existing business or in new investment opportunities to generate growth and hence, create value for the business. For many investors, an important consideration is whether a company pays dividends and the size of those dividends. The term dividend is used because the company's profits are being divided up amongst its shareholders. Dividend amounts are usually expressed in cents per share and are paid out on a per share basis, so the more shares shareholders own, the more dividends they will receive (Horne Van, 2001). Dividends are normally paid on a regular schedule and people need to be aware of four essential dates: Date of Declaration, Ex-dividend date, Date of record and Payment date:

Dividend Payout

Dividend payout has been defined variedly in literature. Among these definitions is the one offered by Nwude (2003) who defined dividend payout as the ratio of the total amount of dividend in proportion to the net income of the company. This is the amount paid and the pattern under which changes in amount occur over time. ICAN (2009) argues that the critical question in dividend policy is whether profits should be distributed as dividends or retained within the firm to finance future expansions and growth. If there are investment opportunities, should the firm use the monies available for dividend to finance these investments or should it pay dividends and borrow later to finance them?. Şamiloğlu, et al (2017) reported that gross dividend payout positively and significantly influences share price. A study by Asghar et al (2011) revealed that dividend yield and dividend payout correlated positively and significantly with the share price.

Market Share Price

Shares are units of ownership of a limited liability company. A share price is the value of a unit of share at a particular period of time. The market price of a company's common share, which can be regarded as a result of the company's investment, financial, and dividend decisions, is the wealth of its shareholders (Chenchehene & Mensah, 2015)

Firm Age

It is one of the control variables in the present investigation. As the company operates longer, it grows into a productive business, boosting its capability to pay more dividends. Banks oftentimes evaluate the creditworthiness of business owners before lending, because they are generally seen as high risk projects which guarantee high returns (Kinyua & Muriu, 2017). The analysis shows that the company age exhibits the relationship with the dividend. A good and significant linkage is created between dividend policy and age respectively.

Firm Size

The company's size has a beneficial impact on guidance regarding the dividend payment. Firms that have far more physical assets may have much more earnings thereby more likely to have high dividend payout (Awan et al. 2011). Large companies, being more diverse, have a reduced chance of default, which lessens the expense of their

financial issues and easier access to markets. In consequence, big firms will capacity to pay dividend to their shareholders.

Leverage

The capital system describes the company usage its debt over total assets. It is a mixture of equity and debt, but prioritizing one another of economic choices when investing to discover the optimum worth of the assets and the company of shareholders. The monetary choice of the capital system is connected not just to discovering the proper kind of funding, but additionally to selecting the very best mixture of the choices for a company start up as well as control fund and ability of company to return to shareholders. (Aiyoub, et al. 2013)

Underpinning Theory

For this study, the bird in hand theory serves as the theoretical framework of the study. The theory originated from the work of Lintner (1956) and Gordon (1959). The theory rests on the assumption that investors are often risk averse who prefers to receive present dividend as against receiving capital gains in the future. According to the theory, a bird in hand is usually prefers to two birds in the bush where the bird in the hand is taken as dividend, while capital gain in the future is assumed to be the bird. Thus, shareholders are more disposed to receiving an income right now as against waiting for future gain which is characterized with varying degree of risk. Thus, a typical investor according to the theory based their investment decision on the dividend policy of the firm and such determine how much they offer for the firm unit of shares. When the firm pay dividend frequently, more investors are expected to patronize the firm which drives the price of share higher. Hence, the bird in hand theory posits a positive impact of dividend policy including dividend per share, dividend payout and dividend yield on share price.

Empirical Review

Velnampy, et al (2014) examined the relationship between dividend policy and firm performance of listed manufacturing companies in Sri Lanka. A set of listed manufacturing companies over a period of 2008 – 2012. Regression result showed that dividend payout and earnings per share were insignificant. The study concluded that dividend policy does not affect firm performance in Sri Lanka.

Chenchehene and Mensah (2015) studied 25 retail firms in the UK between 2004 and 2008 using pooled OLS to analyse the collected data. The results of the study revealed that dividend payout has positive albeit insignificant influence on the share price of UK retail firms.

Ansar et al (2015) also revealed that dividend policy proxy with dividend per share positively and significantly influence the shareholders wealth represented by the market share price of sampled firms selected on Karachi Stock Exchange, Pakistan. The data used in the data were analyzed using panel regression method in addition to the correlation technique.

GejaLakshmi and Azhagaiah (2015) Conducted an empirical study aimed at analyzing how dividend policy (DP) impact on shareholders' wealth (SW) using data collected from a sample of 13 out of 16 listed Fast Moving Consumer Goods (FMCG) firms in Indian National Stock Exchange (NSE) for the past ten years. Data were analyzed using panel OLS while various diagnostic test including test for heteroscedasticity and serial correlation were carried out. The regression model and the regression results revealed that Dividend per Share (121.65) and has significant positive co-efficient on Earnings Per Share (SW) of FMCG firms in India before global financial melt-down. Similar results were recorded after the global financial melt-down as the dividend per share was found to be positive and significant.

Jatmiko (2016) investigated the effect of tax rate and dividend policy on stock price. The study was based on secondary data of 14 firms for a period of 2001-2014. The data collected were analyzed using path analysis and the results indicated that the dividend policy represented by the dividend payout ratio had a significant positive effect on the stock price of the sampled firms.

Eniola and Akinselure (2016) examined the impact of dividend policy and earnings on selected quoted companies in Nigeria and spanned from 2004 - 2013. The study used stratified sampling technique in selecting the 25 companies considered in this research work which cut across seven sectors of the companies listed on the Nigeria Stock Exchange. The study used multiple regression and the findings revealed that there exists a relationship between earning per share and dividend yield. Also, the findings showed that dividend payout ratio does not affect earning per shares.

Farrukh, *et al.* (2017) used data collected from a sample of Pakistan listed firms to analyse the implication of dividend policy on shareholders' wealth and firm performance in Pakistan. The panel data used in the study was obtained from a sample of fifty one (51) firms listed on the PSX between 2006 and 2015. The results of regression revealed that dividend policy measured in terms of both dividend yield and dividend per share has positive and significant influence on shareholders' wealth represented by earnings per share

Oyedokun et al (2019) examined the financial variables influencing the share price of listed deposit money banks in Nigeria. An ex-post facto research design was employed with the population consisting of all fifteen (15) listed deposit money banks on the Nigeria Exchange Group (NGX) and a sample of twelve (12) listed deposit money banks on NSE was taken using filter criteria and judgmental sampling techniques. Secondary data used were sourced from the annual reports of the sampled banks and GTI

Securities Ltd. for five years period from 2013-2017. Ordinary Least Square (OLS) was used to analyze the data. The results of the multiple regression revealed that the dividend payout ratio and price-earnings ratio have a significant positive relationship with the share price. The results also showed that dividend yield has a significant negative association with share price; the book value per share has no meaningful relationship with the share price.

Kolawole et al. (2018) studied the link between dividend policy measured by the dividend per share and dividend yield, and firms earning represented by the earnings per share using data collected from a sample of nine (9) oil and gas firms between 2007 and 2016. The data were analysed using pooled ordinary least square and the results of the study indicates a significant positive influence of dividend payout rate on EPS while the impact of dividend yield on EPS was found to be negative and significant in the Nigeria oil and gas sector.

Methodology

The research design adopted for this study was the longitudinal panel design. The population of the study is made up of all the 14 listed DMBs on the Nigeria Exchange Group as at the 31st of December 2020. The sample size of 9 banks for the study was determined by purposive sampling technique. Data for this study were obtained from the annual reports of sampled Nigerian listed Deposit Money Banks between 2011 and 2020. The study was analyzed using both descriptive, correlation and panel estimation technique.

Table 1: Measurement of Variables

Variable Type	Proxy	Description
Dependent		.
Share Price (SP)	SP	This is measured using the year end closing share in Naira
Independent		
Dividend Per Share	DPS	Cash Divided as a ratio of outstanding share
Dividend Payout	DPO	Dividend per share/earnings per share
Control		
Firm size	FSI	Natural log of total assets
Firm age	AGE	This is measured as by the years of observation less the years of listing on the stock exchange
Leverage	LEV	Ratio of total debt to total assets

Source: Authors Compilation, 2022

Model Specification

To ascertain the connection between the dividend policy and market share price of listed banks in Nigeria, a model adapted from the study of (Adesina et al.,2017) was used as specified in both functional and stochastic form as follows:

$$SP = f(DPS, DPO , Lev, Fsiz, age, \epsilon_{it}) \quad (3.4)$$

$$SP_{it} = \varphi_0 + \varphi DPS_{it} + \varphi DPO_{it} + \varphi Lev_{it} + \varphi Fsiz_{it} + \varphi Age_{it} + \mu_{it} \quad (3.6)$$

Where;

SP = market share price

DPS=Dividend per share

DPO =Dividend payout

Fsiz = firm size

Age = the firm's age

Lev= Leverage

ϵ_{it} = Error term

RESULTS AND DISCUSSION

Descriptive Analysis

Table 2: Estimated Summary of Descriptive Statistics

Variable	Obs	Mean	Std.Dev.	Min	Max
SP	90	8.195	8.926	.52	49.15
DIPS	90	.571	.753	0	2.884
DIVP	90	26.805	28.92	-77.325	156.927
Lev	90	.621	.358	.035	2.095
Fsiz	90	12.217	.355	11.347	12.82
Age	90	24.7	13.673	7	49

Source: Author's Computation, 2022

The result presented in Table 2 indicates that the average share price of the listed Nigerian DMBs within the period under consideration is 8.195 naira with a minimum and maximum of 0.52 and 49.15 naira respectively. The estimated standard deviation of 8.926 implies a moderate variation in the share price of the listed DMBs in Nigeria.

Also, the results show that the average earnings per share of the sampled DMBs is 1.393 naira with a minimum and maximum of -12.66 naira and 6.65 naira. In addition, the study found that the average dividend per share for the period is 0.571 naira with a minimum and maximum of 0 and 2.884 naira respectively. The average dividend payout rate is found to be 26.805 naira with a minimum of 0-77.325 and maximum of 156.927. Also, the summary statistics results reveal that average firm size to be 12.217 with a minimum and maximum of 11.347 and 12.82 respectively as well as standard deviation of 0.355. The estimated mean of firm age is 24.7 years with minimum and maximum of 7 and 49 years respectively. Also, the results show the average financial leverage to be 0.621 with minimum and maximum of 0.035 and 2.095 respectively.

4.2 Correlations Analysis

Table 3: Matrix of correlations

Variables	(1)	(2)	(3)	(4)	(5)	(6)
(1) SP	1.000					
(2) DPS	0.857	1.000				
(3) DPO	0.271	0.389	1.000			
(4) Leve	-0.278	-0.145	-0.172	1.000		
(5) Fsiz	0.481	0.487	0.285	-0.128	1.000	
(6) Age	-0.085	-0.218	-0.240	-0.019	0.273	1.000

Source: Author's Computation, 2022

Table 3 shows the results of the correlation among the variables. The results show that share price has a positive link with dividend payout, with an estimated correlation coefficient of 0.271 while it also has positive relationship with dividend per share with estimated correlation coefficients of 0.857. Furthermore, the estimated correlation coefficient of 0.481 indicates that firm size has positive relationship with share price respectively. Also, age of the firm is negatively related with the share price with estimated correlation coefficient of -0.085. Other regressors have relatively weak relationship since their correlation coefficients are not up to 0.5. Hence, problem of multicollinearity is not likely to occur.

Regression Results

Panel Regression Results for Model (Impact of dividend per share and dividend payout on market share price)

Table 4: Estimated Fixed Effect Panel Regression Results for Model

SP	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
DPS	6.218	0.888	7.00	0.000	4.210	8.227	***
DPO	-0.024	0.013	-1.77	0.110	-0.054	0.007	
Leve	-3.157	2.084	-1.51	0.164	-7.871	1.556	
Fsiz	6.691	1.140	5.87	0.000	4.112	9.269	***

Age	-0.240	0.180	-1.33	0.216	-0.648	0.168	
Constant	-68.566	13.085	-5.24	0.001	-98.166	-38.966	***
Mean dependent var		8.195	SD dependent var			8.926	
R-squared		0.329	Number of obs			90.000	
F-test		12.782	Prob > F			0.001	
Akaike crit. (AIC)		473.342	Bayesian crit. (BIC)			485.841	

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Source: Author's Computation, 2022

From the fixed effect panel regression results presented in Table 4 dividend payout has negative but insignificant negative influence on the market share price of listed Nigerian DMBs given its estimated coefficient and p value of -0.024 and 0.110 respectively. These results imply that market share price of listed DMBs in Nigeria is not sensitive to the dividend payout. In the results presented in Table 4, the estimated correlation coefficient and corresponding p value of 6.218 and 0.000 respectively implying that dividend per share has significant positive impact on the share price of Nigerian listed deposit money banks. By implication, higher dividend per share results to higher share price of the sampled banks.

For the impact of the control variables, the estimated results in the Table 4 show that firm size has positive impact which is significant at 1 per cent on market share price of Nigerian listed Deposit Money Banks given the estimated coefficient and p value of 6.691 and 0.000. The implication of the results is bigger banks attract higher market share price. For the impact of firm age, the results revealed that age of the firm had negative but no significant influence on the market share price of listed Deposit Money Banks in Nigeria as it recorded a respective coefficient and p values of -0.240 and 0.001.

The first null hypothesis of this study states that dividend per share has no significant influence on the share price of listed Nigerian Deposit Money Banks. The results presented in Table 4 shows a corresponding coefficient of 6.218 and p value of 0.000 for dividend per share which implies that dividend per share has a significant positive impact on the share price of listed Nigerian Deposit Money Banks. Thus, the null hypothesis that dividend per share has significant influence on share price cannot be rejected at 1 per cent level.

Discussion of Findings

The panel regression results revealed that dividend per share has significant positive impact on the share price and earnings per share of listed Deposit Money Banks in Nigeria. This is in line with the apriori expectation as well as the theoretical framework of the study. It also supports the dividend relevant hypothesis and implies that dividend per share creates wealth for the Nigerian DMBs shareholders.

Based on objective one of this study states that dividend per share has no significant influence on the share price of listed Nigerian Deposit Money Banks. Findings from the study indicated that dividend per share has significant positive impact on the share price of listed Nigerian Deposit Money Banks. The finding align with that of Kolawole, et al. (2018) who found dividend per share and dividend yield, has significant impact on the earnings per in the course of research conducted on the nexus between dividend policy measured by the dividend per share and dividend yield, and firms earning represented by the earnings per share using data collected from a sample of nine (9) oil and gas firms between 2007 and 2016. Similar findings have been reported by Alim et al. (2014) who indicated significant positive impact of dividend per share on the market price. The authors gave the results while studied the link between dividend policy and shareholders wealth of 50 Pakistan listed textile firms to study the link between dividend policy and shareholders wealth.

The result also consistent with the study of Farrukh, et al. (2017) who found that dividend per share and exert positive influence on the market share price in the course of research undertook on implication of dividend policy on shareholders' wealth and firm performance in Pakistan between 2006 and 2015.

Based on objective two, this study states that dividend payout has no significant impact on the share price of listed Nigerian Deposit Money Banks. The results of the panel regression presented reveal that dividend payout has negative but no significant influence on the share price of listed Deposit Money Banks in Nigeria. The finding is contrary to finding of Oyedokun et al(2019) who found that the dividend payout ratio had a significant positive relationship with the share price while examined the financial variables influencing the share price of fifteen (15) listed deposit money banks on the Nigeria. The finding also contradict the study of Zakaria et al (2012) who found a significant relationship between the dividend policy ratio of a firm and share price in the course of tested the impact of dividend policy on share price valuation of 77 companies. Hasan, et al (2015) who discover a negative impact of dividend payout ratio on firm earnings per share in both sectors of fuel and energy sector and textile sector in Pakistan. At the same time, Chenchehene and Mensah (2015) revealed that dividend payout has positive albeit insignificant influence on the share price of UK retail firms. Jatmiko (2016) indicated that the dividend policy represented by the dividend payout ratio had a significant positive effect on the stock price of the sampled 14 firms for a period of 2001-2014.

Conclusion and Recommendations

A company's dividend policy has the potential to maximize shareholder wealth. The best dividend policy encompasses that which increases the stock price of the company and hence maximizes shareholder wealth. This study has been able to explore the nexus between the dividend policy and the shareholder wealth using ten (10) sampled listed DMBs in Nigeria for period of nine (9) years between 2011 and 2019. The finding of the study reveal a robust evidence suggesting that dividend per share positively impact on the shareholders wealth through increase in the market share price and earnings per share

of the banks suggesting that investors use information on the dividend per share in making their investment decision which is reflected in the price offered for a firm share. This supports the signaling theory and dividend relevance theory. Contrarily, the study found robust evidence that dividend payout had no significant influence on the shareholders wealth as reflected by the market share price and earnings per share of the listed DMBs in Nigeria share price.

Recommendations

In line with the findings of the study, below are the recommendations that emanate:

Decision makers of Nigerian Deposit Money Banks should restructure their dividend policy in a way that will encourage higher dividend per share in order to maximize the wealth of the shareholders. Thus, dividend per share and dividend payout should be given higher attention in the banks dividend policy as it has the capacity to create more value for the banks.

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