



Is Dividend Payment of any Influence to Corporate Performance in Nigeria? Empirical Evidence from Panel Cointegration

Abdulkadir Abdurashid Rafindadi^{1*}, Abdurashid Bello²

¹Department of Accounting, Faculty of Management Sciences, Usmanu Danfodiyo University, Sokoto, Nigeria, ²Department of Accounting, Nigerian Airspace, Management Agency, Sokoto Airport, Sokoto, Nigeria. *Email: aarafindadi@yahoo.com

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ABSTRACT

Firms are established objectively to maximize their value and that of their shareholders; this can be achieved via payment of dividend and investment in profitable ventures. Studies conducted in both developed and developing economies could not solve the problem of dividend dynamism. It is against this background that this study is conducted to determine the effect of firms' performance on dividend policy of 21 listed financial companies in Nigeria purposively selected for a period of 20 years (1997-2016). Secondary data was collected and used for analysis. Hausman and Wald test were conducted to choose between fixed effect and random effect, and fixed and pooled OLS respectively. The study conducted correlation matrix test, panel unit root and panel cointegration test while all study objectives were tested using multiple regression of the fixed effect analysis. The outcome from the regression reveals that all the independent variables significantly affect dividend payout ratio of the sampled companies. It is clear from the analysis that performance affects dividend decisions in both short and long runs. As such, managers of these companies should sustain effective utilization of their assets and should also strive to increase the value of their equity by investing larger portion of their earnings into profitable ventures.

Keywords: Performance, Dividend Policy, Financial Sector, Accounting Based Measures, Market Based Measures, Tobin's Q, Market Value Added
JEL Classifications: G3, M41

1. INTRODUCTION

Firms are established objectively to maximize their value and that of their shareholders. This can be achieved via investing larger portion of their earnings and sharing the remainder to their equity providers in form of dividend. Dividend payment is a contentious issue and one of the most discussable topics in the field of finance by students, managers and policy makers. The widely held view that dividend payment is dependent on company's performance has been a topic of discussion in both developed and developing economies, Nigeria inclusive. For many investors, dividend-paying shares have come to make a lot of sense in Nigeria given the almost cultural belief that making returns on investment is the essence of engaging in any investment or business plan see for instance (Rafindadi and Yusof, 2014a,b; Rafindadi and Zarinah, 2015; Rafindadi, 2015; Rafindadi and Yusof, 2013). Several studies

conducted failed to solve the problem of dividend dynamism. Two schools of thought emerged in relation to this phenomenon. Some believed that dividend payment is dependent on Company's performance while others believed on the contrary. Listed financial companies in Nigeria includes those companies that are engaged in the provision of financial services, investing money in predominantly financial assets, providing services to lenders, borrowers and investors, and providing insurance coverage of all types. They are primarily engaged in financial transactions and also facilitating same to interested clients.

Numerous have empirical studies in both developing and developed economies tried to resolve the controversy of dividend payment, but it remained unresolved (Azhagaiah and Priya, 2008) (Eriki and Okafor, 2002) (Luke, 2011) (Ayunku and Etale, 2016) (Ehikioya, 2015) and (Kennedy, 2015). In Nigeria there exist

limited studies on the effect of firms' performance on dividend policy. Most of the studies conducted have been limited to, studying the determinants of dividend policy in quoted companies in Nigeria (Odesa and Ezekie, 2015), a comparative analysis of the impact of corporate taxation on company's reserve and dividend policy in Nigeria (Onuorah and Chigbu, 2013) and determinants of dividend pay-out policy of selected listed brewery firms in Nigeria: A meta-analysis (Inyiama et al., 2015).

These limited studies have also failed to consider the effect of firms' performance on dividend policy of financial companies listed on the Nigerian stock exchange (NSE). For example, Adediran and Alade (2013) considered sample of the entire firms listed on the NSE. Abiola (2014) considered only listed Banks in Nigeria, Ehikioya (2015), Ayunku and Etale (2016), and Uwuigbe et al. (2012) considered only commercial banks. Also, most of the studies conducted in Nigeria limit their research on only Accounting based measures of performance, neglecting the effect of other measures of performance while others failed to employ the use of control variables in their research. In view of the foregoing, this study is objectively conducted to determine the effect of firm's performance on dividend policy of listed financial companies in Nigeria. ROA, ROE, Tobin's Q and MVA are used as proxies for firm's performance while dividend pay-out ratio is used as proxy for dividend policy.

2. THEORETICAL AND EMPIRICAL REVIEW

The theories explaining dividend policy are divergent. Some theories argue that dividends are irrelevant while others argue that dividends are relevant. Pandey (2005) notes that, irrespective of the existence of large numbers of theories relating to dividend policy, a general consensus has been reached in the literatures that classify dividend theories into two basic categories namely; dividend relevance theories, and dividend irrelevance theories.

Lintner (1956) and Gordon (1959) argued that dividends are preferred to capital gains due to their certainty. This is often referred to as the bird in the hand argument and means that an investor will prefer to receive a certain dividend payment now rather than leaving the equivalent amount in an investment whose future value is uncertain. To support the relevance of dividend payment Gordon in 1959 came up with Bird in the hand theory. Gordon's theory is based on the logic that 'what is available at present is preferable to what may be available in the future' Besnik et al. (2014), Gordon and Shapiro (1956) Gordon (1959; 1963), Lintner (1962), and Walter (1963). Investors would prefer to have a sure dividend now rather than a promised dividend in the future (even if the promised dividend is larger). Hence dividend policy is relevant and does affect the share price of a firm in this respect, three possible hypotheses were examined by Gordon for the reasons behind an investor's decision to buy a specific stock. The first was the investor's decision to get both earnings and dividend, second to get only earning and the last to get only dividend. In 1961 Miller and Modigliani opposed the assertion made by Lintner and Gordon in their paper. Miller and Modigliani argue that share

valuation is a function of the level of corporate earnings, which reflects a company's investment policy, rather than a function of the proportion of a company's earnings paid out as dividends. As such, they viewed dividend policy as irrelevant. They further argue that, given the irrelevancy of a company's capital structure, investment decisions were responsible for a company's future profitability and hence the only decisions determining its market value. Miller and Modigliani concluded that share valuation is independent of the level of dividend paid by a company. In their theory, Miller and Modigliani believes in the payment of dividend to shareholders but only after all viable investments opportunities have been exhausted. That is to say, firms should pay dividend from the residual profits fund remaining after all profitable investment have been financed. Under this theory, the company's main concern is on investment not dividends, and thus dividend policy is irrelevant. They assumed that retained earnings is the best source of long term investment since it is readily available and at no cost to the company. This is because no floatation costs are involved in the use of retained earnings to finance new investments. Therefore, the first claim on earnings after tax and preference dividends will be a reserve for financing investments as such, dividend policy is regarded as irrelevant and treated as passive variable. That is, it does not affect the value of the firm. However, investment decisions will. The view of management in this case is that the wealth of its shareholders will be maximized by investing the earnings in the appropriate investment projects, rather than paying them out as dividends to shareholders. With high level of investment, investors are assured of rapid and higher rate of growth. Ball et al. (1979) examined the effect of dividends on firm value using Australian data over the period 1960–1969. Ball et al. however, failed to find conclusive evidence to support MandM's irrelevance proposition.

Supporting the irrelevance of dividend payment was the tax preference theory by Brennan in 1970 which holds that the tax rate on dividend is higher than the rate on capital gain. A firm that pays dividend will therefore have a lower value since shareholders will pay taxes on this dividend. Investors that belong to this prefer that companies retain larger portion of its profit and provide returns in the form of lower-taxed capital gains rather than higher-taxed dividends (Litzenberger and Ramaswamy in 1982). When the effective rate of tax on dividend income is higher than the tax on capital gains, some shareholders, because of their personal tax positions, may prefer a high retention/low pay-out policy. Therefore a firm that pays no dividend has the highest value. Black and Scholes (1974) propounded a theory called clientele effect. The clientele effect is the tendency of a firm to attract investors who like its dividend policy. Evidence from several empirical studies do suggest that dividends have a clientele effect whereby investors would shift their investments among firms depending on the dividend policies set by the various firms (Dhaliwal et al., 1999 and Allen et al., 2000). It is common knowledge that different groups of shareholders prefer different payout policies like retired individuals for example prefer current income and would invest in those firms that pay a high dividend. On the contrary, investors in their peak earning years prefer re-investment and have no need for current investment income and they would simply invest any dividend received after paying the relevant taxes (Ahmad and Carlos, 2008). Supporting the relevance of dividend payment was the Agency cost

theory propounded by Jensen and Meckling in 1976. Baker et al. (1985) surveyed the chief financial officers of 562 firms listed on the New York Stock Exchange from three industry groups (150 utilities, 309 manufacturing, and 103 wholesale/retail). Based on 318 responses, they found that respondents strongly agreed that dividend policy affects common stock prices. In another survey study, Partington (1985) found that Australian senior managers viewed dividend payments as a way to satisfy shareholders and support the share price. They believed that generous dividend payments shifts the reinvestment decision back to the owners. The underlying assumption is that managers may not necessarily always act as to maximize shareholders' wealth. The problem here is the separation of ownership and control which gives rise to agency conflicts as defined in Jensen and Meckling (1976). Accordingly, when the levels of retained earnings are high managers are expected to channel funds into bad projects either in order to advance their own interests or due to incompetence. Hence, generous dividend policy enhances the firm's value because it can be used to reduce the amount of free cash flows in the discretion of management and thus controls the over investment problem (Jensen, 1986). Stephen in 1977 observed from empirical studies that, those firms that increase their dividend payment significantly had a corresponding increase in share prices whereas those firms that omitted or reduced their dividend significantly had a corresponding decline in share prices. This in his opinion suggested that investors prefer dividend to capital gains. The theory asserts that, those companies that increased their dividend payment send a strong signal about the profitability and sustainability of their operation. Announcement of an increase in dividend payout positively affects the market and helps in developing a positive image of the company to potential investors and general public regarding growth prospects and stability in the future (Koch and Shenoy, 1999). Companies use dividends to share profits with stockholders and when doing so, they can decide to issue a dividend when ploughing profits back into the company for development and growth is not the best option, is not necessary or not practical.

Advancing the issue of dividend policy and firm performance Zanjidar and Seifi (2012) investigated the relationship between dividend and company performance. Consequently, two groups of performance indices based on economic trend and accounting trend were studied. Ninety three companies whose required information was available were chosen for a period of 6 years (2004–2009). The experimental results of the study showed that, there is a positive relationship between economic and accounting performance indices and dividend policy, and that accounting performance indicators have more explanatory power than economic performance indicators and concluded that dividend policy affects firms' performance, reaffirming these findings, Kibet (2012) conducted a study to determine the effect of liquidity on dividend payout, data was analyzed using multivariate regression analysis, dividend payout was considered as dependent variable while liquidity, leverage, profitability, cash flow, corporate tax, sales growth and earnings per share (EPR) as independent variables. Findings reveal that dividend payout is affected by liquidity positively so also the rest of the independent variables except cash flow that have an insignificant relationship. In a related development, Priya and Nimalathasan (2013) analyzed the effect of dividend policy ratios

on Firms' performance for a period of 5 years (2008-2012) of selected hotels and restaurants in Sri Lanka where all the hotels and restaurant were sampled. Their analysis established that dividend policy ratios had a great impact on all firm performance ratios. Contrary to these findings, Velnampy et al. (2014) carried out a research titled "dividend policy and firm performance: Evidence from the manufacturing companies listed on the Colombo stock exchange." They sampled 25 companies and their findings revealed that dividend policy measures are not significantly correlated with return on equity and return on assets as firm performance measures.

Mordedzi (2014) sampled 7 manufacturing firms listed on Ghana stock exchange with the primary objective of establishing whether relationship exists between dividend and performance of the sampled companies. ROA, ROE and Future earnings were used as dependent variables while dividend payout, size, leverage and Tobin's Q as independent variables. Regression results revealed that dividend payout has an insignificant relationship with ROA, ROE and future earnings. It also revealed that firm size has significant positive relationship with ROA, ROE and future earnings while Tobin's Q has insignificant negative relationship with ROA and future earnings. The result is in contrast with the findings of Waswa et al. (2014) whose findings revealed that dividend payout has negative associations with firm's growth, firm size and leverage. Olang et al. (2015) study was set out to determine the effect of profitability, cash flows and working capital on the firms' dividend payout decisions. Purposive sampling was used to select 30 firms that consistently pay dividends from 2008 to 2012. The study revealed that profitability plays a major role in determining dividend payout, because regression result revealed a positive and significant relationship between dividend policy and profitability, cash flows and working capital. Migwi (2015) affirms the outcome of Olang et al. (2015) in a study to analyze the relationship between profits and dividend policy of commercial banks in Kenya. Twenty-seven Banks were sampled out of the 44 commercial banks registered in Kenya. The study revealed that profitability has a significant relationship with dividend policy of commercial banks. All the dependent variables (profitability and inflation) had a significant impact on the value of the banks, but the strength of the relationship reduced when control variables (liquidity and rate of inflation) were incorporated in the study.

Musyoka (2015) studied the effect of dividend policy on the financial performance of firms listed on the Nairobi stock exchange. 20 companies were sampled for a period of 5 years (2010-2014). The study revealed that all the variables (independent) had significant relationship with dividend policy except for firm size and leverage, which revealed negative effect; this finding is in conformity with the outcome of Waswa et al. (2014). Gwaya and Mwasa (2016) in their study sought to examine how dividend policies of selected public limited companies in Kenya affect financial performance during the period 2002–2011. They took a sample of 29 companies listed on Nairobi Stock exchange. The findings of their research established that dividend policy of firms has an effect on its subsequent financial performance. In a related development, M'rabet and Boujjat (2016) extend the period covered by Gwaya and Mwasa (2016). They conducted a research on the relationship between dividend payments and firm performance of

listed companies in Morocco where they sampled 44 companies listed on Casablanca stock exchange for a period of 5 years (2011-2015). The result of their analysis revealed that dividends affect firm performance and that the relationship is strong and positive.

Yusuf (2015) in a sample of 4 deposit money banks in Nigeria with leverage and profitability as proxies for performance conducts a research titled, the impact of performance on dividend payout ratio spanning a period of 10 years (2004-2013). The findings revealed that the profitability of the firm negatively and significantly influences dividend payout of some selected deposit money banks in Nigeria, with an indication that profitability and dividend payout of the Banks move in an inverse direction. That is, the higher the profit earned by the bank, the lesser the dividend declared by the selected banks to the shareholders. This opposed the findings of Enekwe et al. (2015) that sampled four listed cement companies in Nigeria objectively to find out the effect of dividend payout on performance evaluation for a period of 12 years (2003-2014) and their empirical results revealed that dividend payout ratio (DPR) has positive relationship with all the proxies of performance (ROCE, ROA and ROE), Ehikioya (2015) conducted a research trying to investigate the impact of dividend policy on the performance of listed firms in Nigeria. He sampled eighty one firms where ROA and ROE were used as proxy for firm performance and utilized dividend payout ratio and dividend policy as a dummy variable. The findings of the research revealed a significant positive impact of dividend payout on the performance of firms. Ibrahim et al. (2014) examined the relationship between dividend policies and financial performance of selected listed firms in Nigeria. The study sampled 12 companies and covers a period of 5 years (2007-2012). Two models were developed, in the first and second models, PAT and earning per share (EPS) were used as dependent variables respectively, while DPR and TA were used as independent variables in all the models. The result from the findings showed an insignificant and significant relationship between dividend payout ratio and financial performance in models one and two respectively.

In the work of Sunday et al. (2015) titled dividend payout policy and performance, they sampled twenty non-financial firms listed on NSE. Return on asset and dividend payout ratio were used as proxies for profitability and dividend policy respectively, control variables were, firm size, asset tangibility and leverage. Regression result revealed a positive and significant relationship between dividend pay-out policy (DPO) and firm performance (ROA). Recently Akani and Yellowe (2016) conducted a study whose objective was to examine the impact of dividend policy on the profitability of selected quoted manufacturing firms in Nigeria from 1981 to 2014. Returns on Investment and net profit margin were the proxies for profitability, while dividend payout ratio, retention ratio (RR), dividend yield (DY) and EPS were proxies for dividend policy and the outcome of their findings revealed that all the proxies for profitability are positively related to dividend policy except dividend yield. Contrary to this, Peter and Lyndon (2016) investigated the relationship between dividend payout policy and firm performance in Nigeria, using a sample of some listed firms in the NSE for the period 2002–2012. The result showed a positive and significant relationship between dividend payout

policy and profit after tax (PAT) while EPS had a negative influence on dividend payout policy of firms in Nigeria for the period. This finding contradicts the findings of Ibrahim et al. (2014).

Recently, Khan et al. (2016) conducted a research with the basic objective of examining whether dividend policy has an influence on the performance of firms in Pakistan. Ordinary least square model was employed and the findings revealed that return on assets, dividend policy and growth in sales are positively correlated and that there is a negative but significant relationship between dividend payout ratio and dividend policy. In a recent study by Hakeem and Bambale (2016) in their effort to explore the effect of liquidity on firm performance and dividend payout of 50 listed manufacturing companies in Nigeria, performance was measured by return on asset, return on equity, economic value added, and Tobin's Q as well as dividend policy with dividend payout. The study concluded that firm performance has a significant impact on the dividend payout of listed firms in Nigeria. That is, an increase in the financial wellbeing of a firm tends to positively affect the dividend payout level of firms.

The problem observed in some of the identified prior studies is that some of them did not take into consideration other measures of firms performance, like market-based measures, survival measures etc., the studies utilizes only Accounting based measures of performance which is more or less a short term measure of performance, making their findings irrelevant in the long run and only a few introduced control variable(s) in their model that could be a yardstick to ascertaining the effect of firms performance on dividend decision, and to also ascribe to the fact that some other extraneous factor(s) could be responsible for the dividend decision of a company. The studies fall short of studying the entirety of companies listed on the financial Sector in Nigeria, though some were undertaking to study some specific companies within the sector, like Banks, Insurance Companies. For that, this study refutes their findings and still assumed that the problem is still unresolved. This research extends other studies as both accounting based (ROA and ROE) and market-based (Tobin's Q and MVA) measures of performance were incorporated in measuring firms' performance. This enabled the researcher to provide a lucid picture of firm performance as both short-term (accounting measures) and long-term (market measures) measures were incorporated. This study differed from previous studies as it employed the use of control variables and considered all financial firms listed on the NSE.

This study is underpinned by adopting the signaling and Residual theories, because signaling theory incorporates some of the features that are earlier highlighted in the literature (performance is the cornerstone for any dividend decision) and it provides information to both actual and prospective investors about the performance of a firm. The signaling theory as stated above can be used to explain the behavior of investors toward payment of dividend as it is used by investors to determine the level and future performance of firm in a given financial period. Residual theory on the other hand tries to stress the need for investment in projects with positive NPV prior to payment of any dividend. Therefore, the adoption of Signaling and Residual theories is justified.

3. METHODOLOGY

This research is longitudinal in nature and has a total population of 57 financial companies listed in Nigeria. 21 companies were purposively selected as the sample. Data was collected mainly from NSE website and sampled companies' website for a period of 20 years (1997-2016). The basic rule applied for a company to be selected in this study is that it must have been paying dividend within the beginning to the end of the periods under investigation, it must also be listed on the floor of the NSE within the period. It must also have at least 5 years audited Financial Report.

3.1. Models Specification

Regression analysis will be used to test all the objectives stated. The general form of the panel data model can be specified more compactly as:

$$Y = \beta_0 + \beta_1 x_{it} + \beta_2 x_{it} + \dots + \beta_k x_{it} + \varepsilon \quad (1)$$

Where:

Y=Vector of dependent variable

X=Vector of independent variables

β_0 =Intercept of the dependent variable

β_1 =Coefficient on the first independent variable

$\beta_2 = \beta_k$ =Coefficient on the second and so on independent variable

ε =Error term

i=Cross sections (firms)

t=Time series (years).

To achieve our first objective (determining the effect of ROA on DPR), we specify the following empirical model:

$$DPR_{it} = \beta_0 + \beta_1 ROA_{it} + \beta_5 LEV + \beta_6 LIQ + \beta_7 FSIZE + \varepsilon \quad (2)$$

While the second objective (determining the effect of ROE on DPR) can be achieved with the help of this empirical model:

$$DPR_{it} = \beta_0 + \beta_1 ROE_{it} + \beta_5 LEV + \beta_6 LIQ + \beta_7 FSIZE + \varepsilon \quad (3)$$

The third objective, (determining the effect of Q on DPR) the below empirical model is developed:

$$DPR_{it} = \beta_0 + \beta_1 Q_{it} + \beta_5 LEV + \beta_6 LIQ + \beta_7 FSIZE + \varepsilon \quad (4)$$

And lastly, determining the effect of MVA on DPR being the fourth objective, we developed the below empirical model:

$$DPR_{it} = \beta_0 + \beta_1 MVA_{it} + \beta_5 LEV + \beta_6 LIQ + \beta_7 FSIZE + \varepsilon \quad (5)$$

3.2. Panel Unit Root

Dynamic panel data estimators like MG and PMG are appropriate for estimating either I(0) or I(1) integrated data series (or a mix of both), however, where the integration happens to be I(2), the PMG estimator tends to produce false estimates (Rafindadi and Yusuf, 2018). As such, prior to carrying out panel cointegration tests, it is noteworthy to define the order of integration of the variables. Four different unit roots tests; Levin, Lin and Chu, Im, Pesaran and

Shin (IPS), Breitung, and Fisher augmented Dickey-Fuller tests were employed. The ADF test is based on the following regression:

$$\Delta x_t = \beta_0 + \delta T + \gamma x_{t-1} + \sum_{i=1}^{q-1} \delta \Delta x_{t-1} + \varepsilon_t \quad (6)$$

Where Δ represents the first difference operator, x_t denotes the tested variable for unit root; β is the constant; the time trend variable is T; and we include q as the number of lags in order to void problems of autocorrelation in the residuals.

3.3. Panel Cointegration Test

For us to explore the possibility of a long run convergence among our data series, panel cointegration test is carried out. The main aim of the test is to combine information on similar long run relationships as well as simultaneously allow for short run changes and fixed effects to be heterogeneous across the various panel members (Rafindadi and Yusuf, 2018). As a result of these and following Engle and Granger (1987), cointegration model that takes into consideration a significant amount of heterogeneity, a number of statistical tests was proposed by Pedroni (2004). For the purpose of this analysis, we construct the test statistics using the residuals from the following presumed cointegrating regression on the basis Equations (2), (3), (4) and (5) above, with test for the null of absence of cointegration being shown on the residuals of ε_{it} using:

$$\varepsilon_{it} = \omega_i \varepsilon_{i,t-1} + \mu_{it} \quad (7)$$

Pedroni cointegration test allow for significant short and long run heterogeneity since all the β_i in Equations (1), (2), (3) and (2) vary across the panel members. In reality, the fixed and dynamic effects can vary across panel members; under the alternative hypothesis, the vector of cointegration can also vary across panel members, Muye and Muye, (2017). Pedroni developed panel cointegration tests based on the cointegrating residuals of ε_{it} . There are three group mean panel cointegration tests and are based on the between dimension and are formulated by dividing the numerator by the denominator before adding over the N dimension. While four, referred to as panel cointegration tests, are based on the within-dimension formulated by separately adding both the numerator and the denominator figures over the N dimension. With regards to strength, Pedroni (1999; 2004) indicates that the panel variance and group statistics are the weakest, with the panel-ADF (Augmented Dickey-Fuller) performing better while the group-ADF happens to be the strongest (Muye and Muye, 2017).

3.4. Variables of the Study

In this research the variables adopted to determine the effect of firm's performance on dividend policy of listed financial companies in Nigeria are dividend policy as the dependent variable while performance as independent variable. Dividend payout ratio (DPR) was used as proxy for the dependent variable. Accounting based (i.e., Return on Assets and Return on Equity) and Market based (i.e., Tobin's Q and Market Value Added) were used as proxies of the independent variable. Three control variables, leverage, liquidity and Firm Size were introduced for robustness. The variables are defined as in Table 1.

Where:

PS=Book value of preference shares

EV=Enterprise value

EBV=Economic book value

MVE=Market value of equity

BVD=Book value of debt

BE=Book value of equity

BVD=Book value of debt.

Given that panel regression model was adopted for this study, a set of other classical parametric assumptions of the data were performed to ensure its suitability for the regression analysis. Due to the nature of the research (panel), panel unit root and panel cointegration tests were conducted. The paper also tested for the application of either pooled, random or fixed effects model using Hausman and Wald tests. Hausman test was used to select between fixed effect and random effect, while Wald test to choose between Pooled OLS and FE. Data was analyzed with the use of Eviews version 9.5.

4. EMPIRICAL RESULTS AND ANALYSIS

4.1. Descriptive Statistics

Table 2 is a descriptive statistics of the dependent, explanatory and control variables. Dividend payout ratio as the dependent variable has a mean of 50.8%, a maximum of 111% and a minimum of -3.699. This can be interpreted to mean that on average, firms pay 50.8% of their net profits as dividends and the remainder of 49.2% is retained for future profitable investments. A maximum

Table 1: Definition of variables

Variable	Measurement	Abbreviation
Dividend payout ratio	Dividend paid Net income	DPR
Return on assets	Net profit after tax Total assets	ROA
Return on equity	Net profit after tax Total Equity	ROE
Tobin's Q	MVE+PS+BVD Total assets	Q
Market value added	EV-EBV EV=MVE+BVD EBV=BE+BVD	MVA
Leverage	Debt/Shareholders' fund	LEV
Liquidity	Net cash flow	LIQ
Firm size	Log of total assets	FSIZE

Table 2: Descriptive statistics

Statistics	DPR	ROA	ROE	Q	MVA	LEV	LIQ	FSIZE
Mean	0.508	1.072	0.813	0.190	6.333	0.324	5.103	0.875
Median	0.495	1.237	0.853	0.020	7.249	0.441	6.049	0.884
Maximum	1.110	1.469	1.000	3.008	8.927	2.282	8.808	0.986
Minimum	-3.699	-2.386	-2.076	-0.447	0.000	-2.353	1.000	-0.448
Standard deviation	0.546	0.849	0.484	0.757	2.610	0.656	2.715	0.162
Skewness	-1.479	1.792	1.947	3.28	-1.619	-1.705	-0.643	-6.233
Kurtosis	15.72	5.695	9.267	11.97	4.364	8.628	1.815	45.41
Jarque-Bera	1997	235.5	637.5	1428	144.5	507.0	35.77	22883
Probability	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Sum	-142.7	-301.3	-228.5	53.52	1779	91.14	1434	245.9

Source: Eviews 9.5 output, 2018

of 111% means that the company dipped into its cash reserves to pay dividends and a minimum of -3699% simply means that the firm incurred losses but still went ahead to pay dividends from its cash reserves.

4.2. Correlation Analysis

Correlation is a statistical technique that can show whether and how strongly pairs of variables are related. It assesses how well the relationship between two variables can be described using a monotonic function. Table 3 presents the result of correlation analysis.

The dependent variable (DPR) has a significant correlation with ROA at 1% level of significance. The correlation between DPR, ROE and Q is also significant at 5% level of significance and significant at 10% between DPR and MVA. DPR has a negative correlation with Q and MVA but was significant at 5% level of significance. This implies that, an increase in one variable lead to decrease in the other variable and vice versa. While the dependent variable (DPR) has a positive and significant correlation with ROE and ROA at 5% and 10% level of significance respectively. We therefore infer that, there is a correlation between dividend policy and company's performance.

4.3. Panel Unit Root Test

To test for unit root, we employ Levin, Lin and Chun, Im, Pesaran and Shin, ADF and PP methods at levels and at first differences. Interestingly all the variables under consideration are non-stationary in their levels except for two variables Q and MVA that are stationery at level under Levin, Lin and Chun method but later become stationary when they are first differenced. The level of significance of all the methods for all variables is 1% this is presented in Table 4.

The result of co-integration test reported in Table 4 necessitate the rejection of the null hypothesis of no cointegration among the study variables. This is because the P-value is less than critical value at 5%. The result revealed that the variables have long run association. The results of the test indicate that out of the seven statistics, at least four rejected the null hypothesis of no cointegration.

Table 5 revealed that all the independent variables are significant either at 1%, 5% and 0r 10% level of significant in all the three models (FE, RE and OLS). The R² of 0.761569, 0.647238 and 0.557586 against FE, RE and OLS models respectively indicates that, the independent variables account for about 76%, 64% and 56%

Table 3: Correlation matrix

Variables	DPR	ROA	ROE	Q	MVA
DPR	1.000000				
ROA	0.007152*	1.000000			
ROE	0.015109**	0.184010	1.000000		
Q	-0.021490**	0.108975	0.034758**	1.000000	
MVA	-0.071649***	0.029342**	0.031958**	0.092747***	1.000000

Source: Eviews 9.5 output, 2018. *, **, ***Implies significance at 1, 5 and 10% level respectively

Table 4: Panel unit root test results

Variables	Level				First differences			
	Levin, Lin and Chun	Im, Pesaran and Shin	ADF	PP	Levin, Lin and Chu	Im, Pesaran and Shin	ADF	PP
DPR	-7.8111 0.1101	-11.0710 0.1708	92.1253 0.1311	89.0091 0.1062	-12.0797 0.0000*	-12.0041 0.0000*	261.332 0.0000*	888.848 0.0000*
ROA	-12.5139 0.1809	-10.5565 0.2018	211.117 0.1168	298.521 0.1988	-13.6722 0.0000*	-10.0478 0.0000*	195.558 0.0000*	1106.75 0.0000*
ROE	-118.054 0.2081	-25.2213 0.1974	17.1306 0.1483	201.331 0.1905	-20.1419 0.0000*	-12.7231 0.0000*	238.247 0.0000*	924.183 0.0000*
Q	-7.02197 0.0000*	-14.9835 0.1091	31.0113 0.1232	24.5392 0.2011	-17.7329 0.0000*	-10.4710 0.0000*	201.404 0.0000*	268.144 0.0000*
MVA	-76.5598 0.09321***	255.129 0.1198	22.0589 0.2109	54.7210 0.1854	-15.2160 0.0000*	-9.59088 0.0000*	191.140 0.0000*	602.020 0.0000*

Source: Eviews 9.5 output, 2018. ****Significance at 1%, 5% and 10% respectively

Table 5: Panel co-integration tests

Panel Tests	Without trend	With trend
Panel v-statistic	-0.912025 0.8191	-3.816750 0.9999
Panel rho-statistic	-1.702290 0.04444**	1.932801 0.9734
Panel PP-statistic	-8.567124 0.0000*	-7.961106 0.0000*
Panel ADF-statistic	-8.535733 0.0000*	-6.907987 0.0000*
Group rho-statistic	1.142242 0.8733	3.776467 0.9999
Group PP-statistic	-10.15465 0.0000*	-12.50363 0.0000*
Group ADF-statistic	-8.711971 0.0000*	-6.977254 0.0000*

Source: Eviews 9.5 output, 2018. **** significance at 1%, 5% and 10% respectively

variability in the dependent variable and significantly affect DPR. RE model as their P-value of f-statistics are all significant at 1% level of significance. The Hausma test result revealed that FE is the most appropriate model, this is evident from the Chi-square $P = 0.0046$. This necessitate the running of Wald test, so as to choose between FE and OLS, and the test result was significant. In view of the above fixed effect regression model is deemed as the most appropriate.

Test of Model 1

$$DPR_{it} = \beta_0 + \beta_1 ROA_{it} + \beta_3 LEV + \beta_6 LIQ + \beta_7 FSIZE + \varepsilon$$

The panel regression results in Table 6 reveal a $P = 0.0000$ and a coefficient of 0.516342 for the independent variable (ROA). We therefore reject the null hypothesis and deduced that, ROA has positive and significant effect on DPR of listed financial companies in Nigeria. This conforms to the findings of Mutisya (2014), Khan et al. (2016), Sunday et al. (2015) and contradicts the findings of Mordedzi, (2014) whose findings reveal insignificant relationship

between ROA and DPR. The results also indicates that 54% changes in the dependent variable is caused by ROA jointly with the control variables and shows that ROA jointly with the control variables has a significant effect on dividend pay-out ratio of companies listed on the financial sector of NSE within the sample period. None of the control variables introduced is significant at either 1%, 5% or 10% level of significance.

Test of Model 2

$$DPR_{it} = \beta_0 + \beta_1 ROE_{it} + \beta_5 LEV + \beta_6 LIQ + \beta_7 FSIZE + \varepsilon$$

The outcome from Table 7 shows that ROE has a positive and significant relationship with DPR as the p-value reported is significant at 1% level. In view of the above, we therefore reject the null hypothesis 2 (ROE has no effect on DPR of companies listed on the financial sector of NSE) and deduced that ROE has positive and significant effect of the dependent variable. This supported the findings of Velnampy et al., (2014) and contradicts the findings of Anuar et al., (2014) which revealed negative but significant relationship between DPR and ROE. Furthermore, none of the control variable has significant relationship with DPR. ROE jointly with the control variables only account for 43% change in the dependent variable with an f-statistic $P < 5\%$, therefore making the relationship significant as for the case of the studied financial companies in Nigeria.

Test of Model 3

$$DPR_{it} = \beta_0 + \beta_1 Q_{it} + \beta_5 LEV + \beta_6 LIQ + \beta_7 FSIZE + \varepsilon$$

Table 8 present a $P = 0.0821$ with a negative coefficient. This implies that the independent variable (Tobin's Q) has negative but significant effect on the dependent variable (DPR). This conform to the findings of Hakeem and Bambale (2016) which

Table 6: ROA and DPR (fixed effect)

Variables	Coefficients P-value
C	-0.216222 0.4082
ROA	0.329002 0.0000*
LEV	-0.086833 0.4705
LIQ	-0.007983 0.4916
FSIZE	0.148681 0.542887
R-squared	3.421930
F-statistic	0.0000
Prob (F-statistic)	

Source: Eviews 9 output, 2018. **** significance at 1%, 5% AND 10% respectively

Table 7: ROE and DPR (fixed effect)

Variables	Coefficients P-value
C	-0.125861 0.6386
ROE	0.354747 0.0000*
LEV	-0.15539 0.2024
LIQ	-0.007882 0.4995
FSIZE	-0.003176 0.9910
R-squared	0.435288
F-statistic	3.281934
Prob (F-statistic)	0.000001

Source: Eviews 9 output, 2018. **** significance at 1%, 5% and 10% respectively

revealed significant relationship between Tobin’s Q and DPR. We therefore reject the null hypothesis 3 (Tobin’s Q has no effect on DPR of companies listed on the financial sector of NSE). The independent variable jointly with the control variables has significant effect on DPR at 10% level and control only 44.81% changes in the dependent variable. Similarly, all the control variables are insignificant.

Test of Model 4

$$DPR_{it} = \beta_0 + \beta_1 MVA_{it} + \beta_2 LEV + \beta_3 LIQ + \beta_4 FSIZE + \epsilon$$

The regression results of MVA against the dependent variable (DPR) presented in Table 9 presents a P= 0.0739 which is less than 10% level. This denotes that MVA has a negative but significant relationship with the dependent variable (DPR) and jointly with the control variables introduced accounts for 44.97% changes in the dependent variable even though none of the control variables is significant. In view of the above, we therefore reject the null hypothesis and establish that MVA has a significant effect on DPR of financial companies listed on NSE.

5. DISCUSSIONS OF RESEARCH FINDINGS

From Table 2 which is the descriptive statistics Table it is evidently clear how a mean result of 0.507762 against DPR provide an indication that on average financial companies listed in the NSE pay ₦0.507762 as a dividend. It also indicated that on average the

Table 8: DPR and Q (fixed effect)

Variables	Coefficients P value
C	-0.570137 0.0353
Q	-0.026533 0.0821***
LEV	-0.078261 0.5414
LIQ	-0.015433 0.2076
FSIZE	0.196054 0.5088
R-squared	0.448081
F-statistic	1.854092
Prob. (F-statistic)	0.010613

Source: Eviews 9.5 output, 2018. ****Implies significance at 1, 5 and 10% level respectively

Table 9: DPR and MVA (fixed effect)

Variables	Coefficients P-value
C	-0.482534 0.1051
MVA	-0.017612 0.0739***
LEV	-0.051167 0.6988
LIQ	-0.014946 0.2226
FSIZE	0.204740 0.4895
R-squared	0.449717
F-statistic	1.878169
Prob (F-statistic)	0.009277

Source: Eviews 9.5 output, 2018. ****Implies significance at 1, 5 and 10% level respectively

companies’ assets generated ₦1.072182 during the period under investigation. ROE has a maximum generation of ₦1.0000 and a minimum of ₦-2.386158. MVA shows that on average financial companies created excess market capitalization above their enterprise book value 6.33 times, even though there are companies whose enterprise values (market value) is same as their enterprise book value. This is evident from the minimum result of ₦0.00000 against the MVA. On average, the analysis on that table discovered that there is about 19.04% increase in the market value of financial companies as against their book value. This manifested from the mean value of 0.190462 against the Tobin’s Q.

Correlation analysis was run and it revealed that the dependent variable has significant correlation with all the independent variable except Tobin’s Q whose coefficient is insignificant. To test for cointegration between variables, unit root test was run surprisingly all the variable were insignificant at level but were found to be significant at first differences. This serve as a basis for running cointegration test and the result revealed that, all the variables are cointegrated with each other. Independent variables were analyzed individually alongside the control variables against the dependent variable.

The result from the analysis in Table 10 shows that, ROA has a P= 0.0000. This implies that it is significant at 1% level of significant; as such we defensibly reject the null hypothesis that ROA has no effect on the dividend payout ratio. This is consistent with the

Table 10: Regression analysis for pooled OLS, fixed effect and random effect

Variables	RE	FE	OLS
C	-0.031127 0.9028	0.007427 0.9797	-0.024085 0.9229
ROA	0.179351 0.0065*	0.213567 0.0045*	0.142497 0.0251*
ROE	0.236249 0.0025*	0.204170 0.0955***	0.270253 0.004*
Q	-0.039545 0.0618***	-0.023343 0.0013*	-0.009271 0.1007
MVA	-0.006402 0.0455**	-0.017260 0.0453**	-0.005384 0.0738**
LEV	-0.090893 0.2590	-0.105384 0.4019	-0.086539 0.2318
LIQ	-0.004730 0.6779	-0.005712 0.6219	-0.003787 0.7423
FSIZE	0.020960 0.9354	0.065036 0.8169	-0.031830 0.9010
R-squared	0.647238	0.761569	0.557586
Prob (F-statistic)	0.0000	0.0000	0.0000
Hausman test	2.397092 0.0046		
Wald test		9.969754 0.0000	

Source: Stata 12 output, 2018. ***,**Significance at 1%, 5% and 10% respectively

findings of Sunday et al. (2015) whose findings reveal a positive and significant relationship between ROA and DPR. None of the control variables introduced is significant, the independent variable (ROA) jointly with the control variables accounts for 54.3% changes in the dependent variable, the f-statistics p-values of less than 5% level of significance is evidence that, the variables significantly affect dividend payout ratio. The analysis presented in Table 6 revealed that, ROE has positive and significant effect on dividend payment. This is evident from t-statistics p-value which is less than 5% (0.0000). ROE jointly with the control variables introduced account for only 43.47% changes in DPR. This contradicts the findings of Enekwe et al. (2015) whose findings revealed that ROE has no statistical effect on DPR. None of the control variables were significant at 5% or 10% level of significance. In view of the above, we therefore reject the null hypothesis that ROE has significant effect on DPR. The t-statistics $P = 0.0821$ in Table 7 against Tobin's Q is an indication that it is significant at 10% level of significance but the coefficient reveal a negative relationship with the DPR, this implies that increase in Tobin's Q will cause DPR to decrease and this is inconformity with the findings of Hakeem and Bambale (2016) and contradicted the findings of Ochieng (2016) whose findings reveal a negative and significant relationship.

None of the control variables were significant at 5% and this indicate that Tobin's Q jointly with the control variables account for 44.81% changes in DPR, consequently we reject the null hypothesis and deduced that Tobin's Q has a significant effect on DPR. The t-statistic P-value presented in Table 8 of 0.017612 for MVA is significant at 10% but none of the control variables were significant. The R-square results reveal that 44.97% change in the dependent variable is caused by MVA, and MVA jointly with the control variables affect the dependent variable as the f-statistics p-value is significant (0.009277), therefore necessitate the rejection of null hypothesis that MVA has no effect on dividend decision.

In all the analysis of the variables, none of the control variables introduced has insignificant effect against the dependent variable. This can be ascribed to the fact that, certain financial companies pays dividend purposely as a result of competition as payment of dividend increases the value of shares. While others, especially bigger companies refuse paying dividend purposely to increase their capital reserve, thereby allowing them to invest in viable projects.

6. CONCLUSION

This research is intended to examine the effect of a firm's performance on the dividend policy of financial companies listed on the NSE for a period of 5 years (1997–2016). The study concluded that, there exists a policy for the payment of dividend in all the financial companies listed on the NSE during the period of the study, this was evident from the mean value of Dividend Payout Ratio in the descriptive statistics. The study revealed that, managers of financial companies are effective in the utilization of their Assets to generate profit while defective in utilizing debt financing relative to their equity as such, the study concluded that performance affect dividend payment in the short-run.

From the findings of the study it is evident that, the more value a company creates for its shares the lesser dividend it will pay and that increase in the value of firm does not affect the payment of higher or lower dividend in the long-run, as such the study concluded that performance does not affect dividend policy in the long-run. The control variables introduced, (leverage, liquidity and firm size) are not determining factor of dividend policy of financial companies listed on the Nigerian Stock market. This is because most companies (new generation companies) pay dividend regardless of their financial implication but rather to be able to compete with their competitors and increase the value of their shares. While old generation companies neglect the effect of competition when it comes to payment or nonpayment of dividend, because this will not affect the value of their share. As such larger portion of their profit goes to reserve purposely set aside for opportunities that may emanate.

In view of the foregoing, we can conclusively say that firms' performance affect dividend policy of listed financial companies in Nigeria in both short-run and the long-run.

6.1. Recommendations

In view of the findings presented above, the following recommendations are given:

That managers of companies listed on the financial sector of NSE should sustain effective utilization of their assets towards improving the profitability of their companies. This can be achieved by avoiding investment in those assets that do not contribute adequately to profitability of their companies, disposing those assets that are not contributing to operational efficiency will also reduce cost of assets and lastly ensuring that assets are optimally utilize to increase company's return. Corporate managers should reduce the volume of their equity financing and should also device more ways of boosting their returns. This can be attained by increasing the amount of their company debt financing relative to its equity capital, as financial leverage increases a company's return so long as

the cost of debt has a lower interest rate. Idle cash in excess of that meant for operations should be distributed to the owner of equity in form of dividend as idle cash reduces the apparent profitability of a company thus distributing it to shareholders is effectively a way to leverage a company, and boost its performance.

Management of financial companies should also invest in projects that give positive Net Present Values so as to generate huge earnings. This can partly be used to pay shareholders as dividends which can have a positive effect on stock price depending on the consistency and the (relative, i.e., compared to previous year) amount of dividends distributed thereby maximizing their value and that of their shareholders. Finally, potential and existing shareholders of financial companies listed on the NSE should not consider the size or liquidity of a company as the determining factors for the payment of higher or lower dividends, rather they should consider other factors like ROA, MVA and Tobin's Q in their investment analysis.

6.2. Suggestions for Further Research

This study has succeeded in arriving at conclusion on the effect of firms' performance on dividend policy of financial companies listed on the NSE. Further research could still be carried out in the area that would consider some of the limitations of this research. The basic problem of the existing literatures is that most of the empirical investigations have been done on small samples, which is considered to be a sample selection problem. A straight forward further research could be done in dividend policy using samples from a higher sample size that could be representative and comprehensive. Also, there is the need for inclusion of other variables believed to measure organizational performance to determine their effect on dividend policy, such as Economic based measures (residual income, economic value added, and cash flow return on investment), operational based measures (market share, changes in intangible assets such as patents or human resources skills and abilities, customer satisfaction, product innovation, productivity, quality, and stakeholder performance) and survival measures (Z-scores).

This research is limited to determining the effect of performance measures on dividend policy of only those financial companies listed on the NSE. A further research is suggested that will try to look into sectorial analysis on the effect of performance measures (accounting and market based measures) on dividend policy of companies listed on the NSE. Additionally, research should be undertaken to study the comparative analysis of the effect of performance measures (accounting and Market based measures) on dividend policy of companies in different emerging markets.

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