

**DETERMINANTS OF DIVIDEND GROWTH PATTERN OF
THE
DEPOSIT MONEY BANKS IN NIGERIA
(A STUDY OF SELECTED BANKS)**

BY

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**BEING A THESIS SUBMITTED TO THE POSTGRADUATE
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DECLARATION

I hereby declare that this research work titled DETERMINANTS OF DIVIDEND GROWTH PATTERN OF THE DEPOSIT MONEY BANKS IN NIGERIA (A CASE STUDY OF SELECTED BANKS) is a product of my own research under the supervision of Dr. Salisu Mamman. To the best of my knowledge, it has neither ever been published nor presented for the award of a Masters degree or any other degree with similar dispensation in Ahmadu Bello University or any other institution of higher learning.

The information derived from the literature has been duly acknowledged in the text and in the list of references. However, any error contained in this work is completely my responsibility.

ABDULLAHI, Omanoba M.

CERTIFICATION

This is to certify that this thesis titled “Determinants of Dividend Growth Pattern of the Deposit Money Banks in Nigeria (A case Study of selected Banks)” by ABDULLAHI, Role Omanoba M. meets the regulations governing the award of the Masters of Science (M.sc) Degree in Accounting and Finance of Ahmadu Bello University, Zaria and is hereby approved for its contributions to knowledge and literary presentation.

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DEDICATION

To my lovely wife, (Bukky)

and

our two lovely daughters, Deborah and Miriam.

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A pursuit like this cannot be achieved without contributions from several and diverse individuals and groups. These contributions are multi-dimensional and must be acknowledged.

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ABSTRACT

The study titled “Determinants of Dividend Growth Pattern of the Deposit Money Banks in Nigeria (A Case Study of Selected Banks)” was designed to investigate factors that influence the dividend growth pattern of Nigerian Deposit Money Banks. Using the confirmatory specification approach to model development, the study estimates the relationship between three explanatory variables – Earnings Per Share, Share Price, Inflation, and one explained variable –Dividend Growth Pattern by means of the least squares techniques. The population of the study is the 21 banks listed on the floor of NSE as December, 2009. Total of 7 banks were selected based on judgmental sampling technique adopted. Only secondary source of data was employed and the technique utilized for data analysis is multiple regression analysis. It was found that the three predictor variables- Earnings Per Share, Share Price and Inflation have a significant influence on the Dividend Growth Pattern of DMBs in Nigerian. The study also reveals that Inflation has the highest determining ability on the Dividend Growth Pattern of Deposit Money Banks in Nigeria followed by Earnings Per Share and then the Share Price. The study recommends that the Management of banks should improve their performance so as to: (1) increase earnings; (2) attract investors in which the shares prices of the banks are expected to rise and (3) Government policy should be directed at controlling inflation. These recommendations are expected to positively affect Dividend Growth of banks. Management of Deposit Money Banks should ensure persistent and sustainable growth in their dividend payment to shareholders. This will go a long way to retain the patronage of their existing customer while gaining the heart of potential investors. The banks should also ensure stability in their earnings since it is obvious that increase earnings increases growth in dividend.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Dividend decision is one of the fundamental financial decisions which corporate organizations, banks inclusive have to make on continuous bases. This involves the determination of the proportion of earnings to retain and the proportion to distribute to shareholders. This concern has prompted many studies on dividend policy. These studies focused on the nature of dividends and such areas as the relevance or irrelevance of dividend policy to the value of a firm; theories and the determinants of dividend yield and dividend payout rate. Despite extensive debate and research, the actual motivation for paying dividends remains a puzzle. Baker & Powell (2001).

Currently, three opposing theoretical views have emerged on dividend policy. The first is the view of the rightists advocated by Gordon (1976) and was supported by Adelegan (2000) and Akuezuilo (2003). The rightists posit that a policy

of paying out more cash dividends, all things being equal, will tend to increase the share price of a firm. This is based on the assumption that rational investors are risk-averse and will prefer dividends now to future dividends. The second view is that of the leftists supported by Lichtenberger and Ramaswamy, (1979 and 1982). The Leftists position is that a high dividend payout is bad since it tends to reduce the share price of a firm where dividends are taxed more heavily than capital gains. In-between the two extremes is the middle-of-the-road party represented by Miller and Modigliani (1961). They maintain that the share price of a firm is not affected by its dividend payout policy. This is because as long as investment and borrowing policy are held constant, a firm's overall cash flows are the same regardless of payment policy. This is particularly true in a world without taxes, transaction costs and other market imperfections.

These three schools of thought offer contradictory advice to firms. The rightists urge firms to pay high dividend because it increases the wealth of the shareholders. The leftists' advice

firms to pay low dividend since dividend is often taxed more heavily than capital gains. The middle of the roaders encourages firms to vary dividend payment since it does not matter whether dividend is paid or not.

In practice, retained earnings are usually considered as the most significant source of long-term fund required to finance the firm's long-term growth. However, a firm is made up of a coalition of members with somewhat conflicting interests. Three members of the coalition are considered as the most prominent in a firm's dividend decision. These are the firm (itself), the owners (shareholders) and creditors (bondholders and others). This implies that a firm's decision to retain a large proportion of its earnings will adversely affect the two other coalition members. A high retention ratio will result in low payout ratio, which implies less current dividends. A high retention ratio will also imply lower net cash flow because of the relationship between dividend payment and cash flow. A lower net cash flow reduces a firm's solvency, that is, its ability to pay its debts as and when due.

Thus a firm must strike a proper balance between these conflicting interests.

The study on dividend policy carried out by Lintner (1962) revealed that every firm, in practice, follows a particular dividend policy. The study further showed that firms consider the proportion of earnings to be paid out without recourse to their investment requirement. In other words, investment requirement is not a factor for modeling the dividend policy of firms. Hence firms generally have a long-run dividend payout ratio, which are usually smoothed in the process of determining dividend changes that follow shifts in long-run sustainable earnings.

Oyejide (1976) used a modified Lintner – Brittan model adopted by Charitou and Vafeas (1998) to demonstrate the applicability of Lintner's model to firms in Nigeria. The study revealed that the Lintner type conventional models perform remarkable well in explaining the dividend policy of quoted firms in Nigeria.

A survey carried out by Ramesh and Pandey (1994) showed that the typical policy of most firms in practice is to retain between one-third and two-third of the earnings and distribute the remaining amount to shareholders. The Board of directors (BODs) in this regard has a large degree of flexibility to decide on the proportion of earnings to pay as dividend.

The decision is by no means an easy one largely because of the alternative approaches to the establishment of dividend policy in practice. One of the important approaches used in establishing a dividend policy is the residual dividend approach. Under this approach, firms generally avoid new equity sales and rely heavily on internally generated cash flow to finance profitable projects. Dividend is paid only from the left over of cash after satisfying investment requirements. With this policy, the firm's objective as Ross et al (1977 and 1996) indicated, is to maintain its investment needs and its desired debt/equity ratio before paying dividend. Given this objective, the expectation is that firms will pay a high percentage of their

earnings as dividend when investment opportunities are few and vice-versa. Both growing and matured firms employ this approach.

The major disadvantage of the residual dividend approach is that it leads to unstable dividend payout, which may create lack of confidence in the minds of shareholders. In order to avoid this, a firm may choose between at least two types of dividend policies. First, each quarter's dividend can be a fixed fraction of that quarter's earnings. The effect of this is that dividend will vary throughout the year. This is called a cyclical dividend policy. Second, each quarter's dividend can be a fixed fraction of yearly earnings, implying that all dividend payments would be equal. This is a stable dividend policy.

According to Ramesh and Pandey (1994), most financial managers agree that stable policy is in the best interest of the firm and its shareholders. This is because it enables shareholders to predict dividend payment. Dividend cuts in

particular are viewed as highly undesirable because such cuts are often interpreted as a sign of financial distress. Consequently, most companies in practice will try to maintain a steady dividend through time, increasing the dividend only when management is confident that the new dividend can be sustained in the long run.

From the above discussion, it is obvious that dividend policy has been the subject of considerable research and scrutiny by equity analysts and financial economists in the developed economies. This study intends to determine the growth pattern and the reasons for the emerging pattern in the Nigerian Banking Sector.

1.2 STATEMENT OF THE PROBLEM

The importance of dividend payments as one of the determinants of a firm's economic performance has for long been recognized by developing economies (Oyejide, 1976). In Nigeria, early studies on dividend policy attempted to highlight the dividend policy pursued by Nigerian firms during the

period of indigenization. **Uzoaga and Alozienwa (1974); Inanga (1975) and Soyode (1976)**. These studies fall short of utilizing the conventional dividend models in their investigation. Subsequent studies such as Oyejide (1976), Izedonmi and Eriki, (1996) and Adelegan, (2000 and 2001) have tested the application of Lintner's model and the modified Lintner-Britain model as adopted by Charitou and Vafeas (1998), in an attempt to explain the dividend policy of Nigerian firms at different periods. Most of these studies however, recognized the dynamic nature of the Nigerian economy and the need for further research in order to validate the conclusion that emanated from the studies.

The Financial Sector as a catalyst to economic development has not witnessed substantial research studies on its dividend policy. This study develops an empirical basis that will reveal the growth pattern and the determinants of dividend policy in Nigerian Deposit Money Banks (DMBs). This is expected to provide useful explanation on the dividend policy of Deposit Money Banks (DMBs) in Nigeria based on the

explanatory variables identified from prior studies and legal considerations. The study also examines the effect of and relationship between dividend growth patterns and the Deposit Money Bank's stock valuation.

Legally, dividend decisions in Nigeria are at the discretion of the directors, there are of course constraints that limit the directors. Some of the constraints are imposed by legal rules while others are imposed by financial factors. The level of influence of these constraints and factors are been evaluated to provide a guide to Board of directors in exercising their discretion in respect of making sound dividend decision.

1.3 RESEARCH QUESTIONS

This study shall address the following questions:

1. What are the financial and managerial determinants of dividend pay out rate of Deposit Money Banks in Nigeria?

2. Which factor amongst the determinants has the most significant impact on the dividend policy of Deposit Money Banks in Nigeria and what is the sequential significance of the determinants?
3. To what extent can the dividend policy of Deposit Money Banks in Nigeria affect their stock valuation and what relationship exists between them?

1.4 RESEARCH HYPOTHESES

Basically, this study would attempt to test these two hypotheses: Hypothesis I and Hypothesis II.

HYPOTHESIS I

Ho: There is no significant relationship between the share prices and earning per share of Nigerian Deposit Money Banks and their dividend growth patterns.

Hi: There is significant relationship between the share prices and earning per share of Nigerian Deposit Money Banks and their dividend growth patterns.

HYPOTHESIS II

Ho: There is no significant relationship between inflation rate and the dividend growth pattern of Nigerian Deposit Money Banks.

Hi: There is a significant relationship between inflation rate and the dividend growth pattern of Nigerian Deposit Money Banks.

1.5 OBJECTIVES OF THE STUDY

This study is designed to achieve the following objectives:

1. To identify the financial factors that determines the growth pattern of dividend policy of DMBs in Nigeria.
2. To determine the aggregate impact of the determinants of dividend policy in DMBs in Nigeria.
3. To identify the determinant with the most significant impact on the dividend policy of DMBs in Nigeria, and consequently, the sequential significance.
4. To develop some dividend policy guide for determining the dividend policy of DMBs in Nigeria.

1.6 SIGNIFICANCE OF THE STUDY

To date, the theories on dividend policy in the finance literature have remained controversial. These controversies do not seem likely to be resolved in the nearest future. The major defects of these theories as Brealey and Myers (1996) pointed out are that they are too incomplete, and the premise upon which they are built is too sensitive to minor changes in specification to warrant any dogmatism.

However, it is obvious that firms in practice adopt various dividend policies. The convention in Nigeria and other parts of the world is to grant substantial latitude to the Board of Directors to make dividend decisions subject to some legal and financial constraints. Consequently, divergent practices exist in the area of corporate dividend policy. The contributions of this study will therefore permeate the theoretical and practical dimensions of Nigerian corporate dividend policy, with particular emphasis to DMBs.

In the theoretical arena, this study echoes the view of the rightist school of thought. This is due to the overwhelming evidence that demonstrate the importance of dividend to shareholders and the reaction of stock prices to dividend announcements. It is therefore believed that the outcome of this study will extend the frontiers of knowledge on dividend policy.

The practical contributions of this study are thus manifold. First, the accounting professional bodies may find the outcome of this study useful in the development of a standard on dividend. A standard on dividend is essential not only to provide clear guide to corporate bodies in formulating dividend policies but also required to narrow the divergent practices that presently exist in the area of dividend policy. This will go a long way in promoting uniformity and comparability of financial statements.

Second, the Board of Directors (BODs) of commercial banks will benefit tremendously from the outcome of this

study. Although the BOD's latitude in formulating dividend policy may be reduced or eliminated, the need for guidance cannot be overemphasized. Where specific guidance exists, dividend policy formulation can be based on clear cut guidance rather than relying on intuition, hunch, or untested rules of thumb. This will go a long way in promoting uniformity and comparability of financial statements.

Lastly, future researchers may replicate this study using different sample and time horizon in order to validate the application of the model and findings of this study. It is therefore hoped that this research will stimulate further empirical studies on dividend policy in Nigeria.

1.7 SCOPE OF THE STUDY

This study will examine the aggregate impact of five predictor variables, current profits, previous dividends, cash flow, investment and net current assts on the dividend policy of commercial banks in Nigeria.

1.8 PLAN OF THE STUDY

The remaining parts of this study have the following organization. Chapter two reviews and appraises theoretical, survey and empirical works on corporate dividend policy that are related to this study. Chapter three discusses the methodology of the study. Chapter four presents the empirical results generated from the primary and secondary data collected for the purpose of this study. Chapter five provides the summary, conclusion and recommendations of the study.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

The corporate choice to pay a cash dividend to shareholders, to increase the dividend, reduce the dividend or keep it at the same naira amount represents one of the most challenging and perplexing areas of corporate financial policy. Since shareholders' return only comes in two forms: stock price change and dividends received, it follows that the dividend decision directly impact shareholders' wealth.

It is observed that rational investors would rather be wealthier than less wealthy. Accordingly, corporate Boards of Director face a daunting decision every time the questions of dividend policy and the possibility of changing the cash dividends are on the agenda. As a result, dividend policy is aimed at maximizing the shareholders' wealth. **Akinsulire and Aborede (2005).**

2.2 THE CONCEPT OF DIVIDEND AND DIVIDEND POLICY

The financial need of the company may be in conflict with the desires of shareholders. Managerial prudence requires giving more weight to the financial needs of the company. However retained earnings should be used as a source of financing only when the company has profitable investment opportunities, where shareholders have better investment opportunities the earning should be distributed to them so that they may be able to maximize their wealth.

Dividend is payment made out of firm's earning, usually current earning, to its shareholders in form of cash or stock. Dividends are periodic cash payment made by companies to their shareholders. Samuels (1995). Dividend policy, also called dividend decision, on the other hand is a decision that determines the amount of earnings to be distributed to shareholder and the amount to be retained by the firm. Preference share dividends are usually fixed by the terms of issue and are therefore not subject to policy decision of Management. However, payment of dividends to ordinary shareholders is a matter of company policy to be decided by

the Board of Directors. It is an observable fact that the proportion of earning paid out as dividend to ordinary shareholders can vary quite considerably from company to company.

The ability of a company to pay dividend will be related both to profitability and liquidity. There must be distributable profit from which to pay dividend and cash available to make actual payment. Within these constraints dividend policy will be determined by the directors of the companies, who may decide to recommend distribution of either high or low proportion of profits. The policy adopted should be aimed at maximizing shareholders wealth in line with corporate objectives.

It would be necessary to know really whether there is any particular dividend policy which maximizes shareholder wealth. Is a high dividend payment policy better than a low payment policy? The answers to these questions would seem to be obvious, but they are not. In addition, would not high dividend means a high share value? The answer to this is, it

depends, if it were possible to increase the current dividend payment without affecting future payment in any way, then share value would be increased.

But a moment's thought should tell us that because dividends are a cash payment, they reduce the resources of the company and unless replaced by new capital issues could affect the short and long term investment prospects and hence the dividend paying ability of the company. This is what makes the dividend decision difficult to analyze in real world situations because it can impact on both the investment and financial decisions.

It is therefore frequently analyzed by assuming that investment and borrowing are given and that changes in dividend payment are accommodated by identical changes in the issue of new equity, this was the approach adopted by Miller and Modigliani (1962).

Porter-field (1982) suggested a simple model for analyzing the dividend payment which is useful in identifying factors which might affect shareholder's wealth and suggesting a framework for future discussion. Porter - field suggested that it would be worthwhile paying a dividend if $d_1 + p_1 > P_0$. Where d_1 is the cash value of the dividend to a shareholder, where p_1 is the forecast ex-dividend market price of the share immediately after the dividend announcement, where P_0 is the market price before the dividend announcement.

The equation is saying that if the sum of the dividend payment plus the share value after payment of the dividend is greater than the share price before the dividend announcement, then a dividend should be paid. This is because shareholder wealth will be greater with the dividend payment than without it.

It is worthwhile to consider the factor which could affect the values of $d_1 + p_1 > P_0$ in the equation above, before the dividend announcement will be reflected in the company

prospect in terms of future profitability and related dividend payment. There would be some sort of investors consensus based on all available information relating to the company, the industry it operates in and current market condition. The information will include forecasts for future dividend payment to be made. When announced the dividend d_1 may be about the same, higher or lower than the market anticipation. The actual cash value of the dividend to share holder will vary between shareholders depending on the respectively marginal income tax rate. Tax-exempt shareholder e.g. pension funds particularly under an imputation system or corporation tax will enjoy higher cash benefit than a shareholder paying tax at the highest marginal tax rate (40% at the time of writing). The ex-dividend share price P_1 will be affected by the dividend payment itself which caused a decline in company resources but may also be affected by the change commonly referred to as informational effect may arise because of revised expectations about the future prospects of the company.

From the above, it suggests that value of dividend payment to shareholders depends on a number of factors relating to the value of d_1 and p_1 . While p_1 depends on how much share price changes because of revised expectation on announcement of the dividend payment. In fact the equations can be adopted to summarize the view advanced on dividend policy.

If $d_1 + p_1 > p_0$ then dividend enhance shareholders wealth and higher dividend would be preferred. This was advocated by a number of writers prior to MM's irrelevancy theorem which can summarized as $d_1 + p_1 = P_0$ i.e. shareholders wealth is not changed by dividend payment as the share value declines by the amount of dividend paid. A third view based on shareholders taxes claimed that because dividend have in the past been taxed more highly than capital gains, then $d_1 + p_1 < p_0$.

According to Brealey and Myers (1996) "dividend policy" means different thing to different people. Therefore an appropriate starting point for a discussion on dividend policy is a conceptualization of the subject matter.

They went on to summarize the views on dividend policy into three as follows:

- (1) The view that relate dividend policy to a firm's financing and investment decisions;
- (2) The view that relate dividend policy to level of dividends;
- (3) The view that relate dividend policy to dividend stability.

Dividend decision can be considered as a passive decision variable. Passive decision variable implies that, dividend is only to be paid out if a firm cannot make better use of its fund for the benefit of its shareholders. This implies that earnings are retained to the extent that they are required to finance a firm's optimal capital budget. Dividends are paid only if more earnings are available than are needed to support the capital budget. This is referred to as the "Residual theory of dividend" (Brealey and Myers, 1996). The problem with this theory as Block and Hirt (2002) and Mainoma (2001) indicate is that no consideration is given to shareholders feeling about dividend. The treatment of dividend policy as a passive

residual determined by the availability of acceptable investment opportunities suggest that shareholders are indifferent to a firm's decision to pay dividend or retain earnings.

Thus, any change in payout policy will have two opposing effects. A firm must therefore strive for an optimal dividend policy by striking a balance between current dividends and future growth so as to maximize the stock price.

Dividend stability generally refers to the payment of dividend for a long unbroken period, that is, regularity in dividend payment. Thus Pandey (1999) identified three forms of dividend stability viz; constant dividend per share, constant payout, constant dividend per share plus extra dividend.

Constant dividend per share refers to the policy of paying a fixed amount per share on paid-up capital as dividend every year, irrespective of fluctuation in earnings. The dividend per share can be increased when a firm reaches new levels of sustainable earnings. This suggests that the policy can best be

adopted by companies with stable profits. Firms with wide fluctuation in earnings may find this policy most unsuitable. According to Mainoma (2001) a stable per share dividend policy contains substantial information content for common shareholders, especially when a firm with fluctuating earnings maintains its payments during periods of reduced total earnings using dividend equalization reserve. This is because shareholders interpret the policy as an indication of a firm's ability to maintain high level of profitability and liquidity.

Constant payout otherwise known as constant payout ratio policy refers to the payment of a fixed percentage of current earnings every year as dividend. It also refers to the payment of a fixed percentage of previous year's earnings or a long-run average payout. In practice, a constant payout involves the determination of a range say 30% and 70% and making effort to maintain it. Such a policy is easy to administer, reduces the chances of erroneous informational content and appeals to a wide range of investors. The greatest drawback of this policy is the initial step of selecting the

appropriate payout ratio. A lot will depend on the use of intuition rather than an objective criterion. Another problem associated with this policy is that it leads to large fluctuations in Dividend Per Share (DPS) if a firm's earnings are unstable (Hartl, 1986).

Constant dividend per share plus extra dividend policy involves the setting of a high amount of dividend by companies with stable earnings and a minimum dividend per share with a step-up feature by firms with fluctuating earnings. The high level or minimum dividend per share is fixed to reduce the incidence of dividend omission. This is usually followed by a payment of an extra dividend (such as an interim dividend) in periods of prosperity. The wisdom here is to prevent investors from expecting that the dividend represents an increase in the established amount (Pandey, 1999). A possible advantage of this policy according to Mainoma (2001) is that it enables a firm to pay regular dividend without default, and allows a great deal of flexibility for supplementing the income of shareholders only when there is an increase in the firm's

earnings. Thus the extra dividend can be omitted without decreasing the regular dividend. A major draw back of this policy is that the shareholders may become used to extras and always expect it. If the expectation is not met, some shareholders may choose to sell the shares which may result in a fall in market price per share.

Hartl (1984) posits that rather than adopting a stable dividend policy, a firm should adopt a "managed dividend policy". A managed dividend policy can take many forms, but the underlying theme is continuity and stability of dividends per share. To achieve continuity and stability, dividends are usually continued during periods of negative earnings, and raised only when a company is confident that the higher dividend can be maintained. A managed dividend policy thus suggests that dividend changes will normally lag behind earnings changes by a year or two. Firms that follow a managed dividend policy also frequently make use of extra dividend and stock repurchases when profits are exceptionally large and/or worthwhile investment

opportunities are scarce. Although the concept of managed dividend policy is appealing, it is difficult to administer and necessarily results in a dividend payout rate that fluctuates around a predetermined target rate. And, for better or worse, this policy treats retained earnings as a residual.

From the foregoing, it is evident that a firm's dividend policy cannot be divorced from its financing and investment decisions. Dividend policy involves the determination of a firm's payout ratios and invariably the retention rate; and keeping in mind the preference of shareholders, firms strive to establish a dividend policy that ensures continuity and stability in dividend payment. Dividend policy therefore involves the determination of a firm's payout ratio having regards to its investment opportunities and the desire to maintain the payout ratio over a long period of time. This is considered as a more appropriate view of dividend policy.

2.2.1 OBJECTIVES OF DIVIDEND POLICY

Most of the literature in finance view dividend policy as a decision confronting a firm's management with regards to the proportion of earnings to distribute as dividend and the proportion to retain for the purpose of expansion. Pandey (1999) observes that the amount to be retained in the firm affects the amount to be paid out as dividend. The importance of these two variables lies in the fact that while retained earnings are the most significant internal sources of financing the growth of a firm, dividends on the other hand are considered desirable from shareholder's point of view, as they tend to increase their current return.

Brigham and Houston (1998) thus argue that when deciding on how much cash to distribute to shareholders, financial managers must keep in mind that the firm's objective is to maximize shareholders' value. Therefore, the proportion of earnings to be paid out as cash dividends (known as target payout ratio) should be based in large part on investors' preferences for dividends versus capital gains. This preference can be considered in terms of the constant growth stock valuation model.

A firm's dividend policy has the effect of dividing its net earning into two parts: retained earnings and dividends. The retained earnings provide funds to finance the firm's long-term growth. It is the most significant source of financing a firm's investments in practice. Dividends are paid in cash. Thus, the distribution of earnings uses the available cash of the firm. A firm which intends to pay dividends and also needs funds to finance its investment opportunities will have to use external sources of financing, such as the issue of debt or equity.

Dividends policy of the firm, thus, has effect on both the long-term financing and the wealth of shareholders. As a result, the firm's decision to pay dividends may be shaped by either the firm's need for funds or the shareholders' need for income (Pandey, 2005).

2.2.2 FORMS AND TYPES OF DIVIDEND POLICY

- a. **Cash Dividend:** This is simply the payment of dividend in the form of cash. Although, this is done in the absence of positive net present value projects. Rather than

- investing funds at less than the owners could earn elsewhere, management pays cash dividend. Thus, most companies that are adequately liquid pay cash dividends.
- b. **Bonus shares:** This is also known as stock dividend. It is the distribution of shares free of cost to the existing shareholders. But the firm's assets, its earnings and the risk assumed as well as investors' percentage of ownership in the company remained unchanged. Hence there is no dilution of ownership.
- c. **Stock splits:** This is an increase in the number of shares outstanding by reducing the per value of the stock. However, stock split is similar to bonus shares as they both involve distribution of new shares in addition or in place of each dividend to existing shareholder. The only difference between them is the accounting treatment. For accounting purposes, stock split has been defined as a stock dividend exceeding 25 percent, while stock dividend is arbitrarily defined as the distribution of shares up to 25 percent of the number of shares currently outstanding.

- d. **Proper dividend:** This is when dividend is paid with other assets other than cash, usually as per value of a firms pay out ratio.
- e. **Liquidation Dividend:** As the name implies, is usually paid when the company is winding up (Pandey, 2005).

2.2.2 PATTERNS OF DIVIDEND PAYMENTS

- a. **Constant Dividend payout ratio:** In this policy, the percentage of earnings paid out in dividend is held constant. Although, the dividend to earning ratio is stable, but the Naira amount of the dividend naturally fluctuates from year to year as profit vary.
- b. **Stable naira dividend per share payout:** This policy maintains a relatively stable Naira (N) dividend over time. An increase in the Naira dividend usually does not occur until management is convinced that the higher dividend level can be maintained in the future. Management also will not reduce the higher dividend level can be maintained in the future. Management also will not reduce the Naira dividend until the evidence clearly

indicates that a continuation of the present dividends cannot be supported.

- c. **Small regular dividend plus year-end extra dividend pay out:** A corporation following this policy pays a small regular dividend plus a year end extra dividend in prosperous years. The extra dividend is declared toward the end of the fiscal year, when the company's profit for the period can be estimated. The main aim of the management is to avoid the connotation of a permanent dividend. However, this purpose may be defeated if remaining extra dividends came to be expected by investors.

Hence, the stable Naira dividend is by far the most common of the three dividend policies, as findings made it known that corporate managers are fond of being reluctant to change the Naira amount of the dividend in response to temporary fluctuations in earnings from year to year (Aborede, 2005).

2.3 CONSTRAINTS OF DIVIDEND GROWTH PATTERN (CONSTRAINTS)

Cash Flow Constraints: Firms pay dividends in cash. Firms without available cash cannot pay dividends, no matter what their earnings. This emphasizes again the superiority of cash flow over earnings in most financial contexts. Even if firms do not have cash on hand, they may borrow funds to pay dividends. However, this requires incurring the costs of borrowing therefore, may be unwise.

Legal constraints: Law governs permissible dividend practices and may constrain the firm's dividend policy. The dividend policy of the firm has to evolve within the legal framework and restrictions.

Access to the capital market: A company that is not sufficiently liquid can still pay dividends if it is able to raise debt or equity in the capital markets. If it is well established and has a record of profitability, it will not find much difficulty in raising funds in the capital markets. Easy accessibility to the capital market provides the management flexibility in paying dividends as well as in meeting the corporate obligations.

Contractual constraints: Bondholders know fully the bag of tricks that management might use to transfer their wealth to shareholders. To avoid this, bond indentures often restrict the kind of dividends firms can pay (Kolb and Rodrigues, 1996).

Ability to borrow and repay loans: dividends are usually paid in cash a firm's contractual obligation often tamper its ability to pay cash dividend. These obligations may be in the form of term loan agreement bond, preferred stock agreement or lease contracts. Generally these constraints either hinder the payment of cash dividend until a certain level of earnings has been achieved or limit the amount to be paid.

Profitability and Growth Prospects: Since cash dividends are usually paid out of the earnings of the company it follows that the more profitable the firms is, the greater its ability to pay and sustain a reasonable dividend bearing in mind that enough funds should be retained for re-investment to generate more profit in future. It is possible for a firm to borrow funds to pay dividends but if borrowing were necessary the minimum amount of dividend would most likely be paid. It looks more

like dividend policy would depend on profitability and stability of earning than any other single factors.

On the other hand, growth prospect must be evaluated in formulating a dividend policy. The firms must plan its needed financing in line with its forecasted growth. This greatly affects the need for retained earnings to finance growth.

Shareholders preference: In formulating a dividend policy, the primary concern should be how to maximize shareholders wealth over the long run. Although it is impossible to satisfy each and every shareholders, the firm must try to establish a policy that has a favorable effect on the wealth of the majority of the owners, some factors to be considered are:-

- a. **Tax status of the owners:** Some share holders especially those in the lower income group will logically prefer regular dividend payment to capital appreciation. They might need to use the proceeds from dividend to supplement their income so as to service obligation as they fall due or to finance consumption and meet

immediate expenses. Examples are, Insurance Companies, Widows, Pensioners e.t.c. On the other hand, for higher tax bracket shareholders, they would prefer capital gains which are taxed less.

b. **Investment opportunities:** A firm should not retain funds or when investment opportunities do not abound or where returns are no encouraging. It is unjustifiable to retain earnings in such companies because doing so will have a adverse effects on share holders wealth on such a situation the firms should pay the earning out as dividend so that shareholders could reinvest in other viable business outside.

c. **Dilution of ownership control:** A firm whose shareholders group wishes to maintain control of the company may be reluctant to pay higher dividend because to do so might force it go to the capital market to raise funds to undertake new and viable investment shareholders become dissatisfied when their existing control is being diluted.

Market consideration and resolution of uncertainty:-A

consistent dividend policy reduces uncertainty in the mind of shareholders and investors at the margin, who perceive stable and consistent dividend payment to mean that the company has brighter prospects in future. Since the wealth of shareholders is reflected in the market price of the firm's share, an awareness of the market probable response to certain types of dividend policy is necessary in formulating a suitable dividends policy. This help to reduce uncertainty about future success.

Dividend Policies of Similar Companies:-The Board of Directors of a company must take into cognizance the dividend policies pursued by other firms in the same industry and ensure that its own policy is not too different from those in its group. Shareholders will oppose any attempt to effect dividends.

Liquidity: The payment of dividend means cash out flows. Although, a firm may have adequate earnings to declare

dividend, it may not have sufficient cash to pay dividends. Thus, the cash position of the firms is an important consideration in paying dividends. The higher the cash and overall liquidity position of the company the higher the ability to pay dividend. A mature company is generally liquid and is able to pay large amount of dividends. Such a company does not have much investment opportunities, the funds are usually not tied up in permanent working capital. Hence, they usually have a sound cash position. On the other hand, a growing firm faces the problem of liquidity even when it makes good profits. This is because it needs funds for the expanding activities and permanent working capital. As a result of the insufficient cash or pressures on liquidity in case of a growing firms, Management may not be able declare dividend.

Inflation: In an indirect way, inflation can be a constraint to paying dividends. Our accounting system is based on historical cost. Depreciation is charged on the basis of original cost of which assets were acquired. As a result, when price rises, funds generated by depreciation would not be adequate

to replace assets or maintain the capital intact. Consequently to maintain the capital intact and preserve the earnings power of the firms, earnings would be retained.

2.4 THEORETICAL FRAMEWORK

The objective of dividend policy should be to maximize a shareholders' return so that the value of his investment is maximized. Shareholders' return consists of two components: Dividends and capital gains. Dividend policy has a direct influence on the two components of return (Pandey, 2005).

2.4.1 THE RESIDUAL THEORY:

According to Kolb & Rodrigues (1996), the conflicting pressures on the dividend policy of the firm stem from taxation and transaction costs. The residual theory of dividends attempts to summarize the net impact of these conflicting influences. According to the residual theory, the firm should follow its investment policy of accepting all positive net present value (NPV) projects, and paying out dividends if, and only if, funds are still available. In this way, the firm treats

dividends as a residual-the amount remaining after the investment policy is satisfied. If the firm treats dividends strictly as a residual, then dividend can vary dramatically from period to period. The dividend will simply depend upon the investment plans and operating results of the firms.

When we couple the existence of dividend clienteles with the residual theory, firms may be wise to operate under a slightly modified residual theory. To attract investors falling into a particular clientele, perhaps the firm should maintain a fairly stable dividend policy. For example, a firm that attracts investors seeking high dividends will keep those investors interested only if it consistently pays a fairly high level of dividends. If a firm lets its dividends oscillate radically, both investors that seek dividends and those that wish to avoid dividends may refrain from investing in the firm.

The residual theory also confuses a firm's dividend policy financing policy. Miller and Modigliani (1961) criticized the theory that dividend policy affects the share price of a firm on

the grounds that the proponents of the theory mixed up a firm's dividend decision with its financing and investment decisions. Where this occurs, it will be difficult to separate the impact of dividend policy must always be isolated from other problems of financial management.

2.4.2 THE RELEVANCE THEORY:

James (1963) argues that the choice of dividend policies almost always affect the value of the firm. His model, one at the earlier theoretical works, shows the importance of the relationship between the firm's rate of return (r) and its cost of capital (k) in determining the dividend policy that will maximize the wealth of shareholders. Walter's model is based on the following assumptions:

- a. **Internal financing:** The firm finances all investment through retained earnings; that is debt or new equity is not issued.
- b. **Constant return and cost of capital:** The firm's rate of return (r) and its cost of capital (k) are constant.

- c. **100% (percent) payout or retention:** All earnings are either distributed as dividends or re-invested internally immediately.
- d. **Constant EPS and dividends:** The values of earnings per share and dividend remain constant.
- e. **Infinite time:** The firm has a very long or infinite life.

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

$$P = \frac{D1V}{K} + \frac{r(EPS - D1V)}{K} \quad (1)$$

Where:

- P = Market price per share
- D1V = Dividend per share
- EPS = Earnings per share
- r = firm's rate of return (average)
- k = firm's cost of capital or capitalization rate.

Equation (1) reveals that the market price per share is the sum of the present value of two sources of income:

- (i) The present value of the infinite stream of constant dividends, $D1V/K$ and

(ii) The value of the infinite stream of capital gains $[r(ESP - D1V)/k]/k$. when the firm retains a perpetual sum of $(ESP - D1V)$ at (r) rate of return, its present value will be: $r(ESP - D1V)/k$. this quantity can be known as a capital gain which occurs when earnings are retained within the firm. If this retained earnings occur every year, the present value of an infinite number of capital gains, $r(ESP - D1V)/K$, will be equal to: $[r(ESP - D1V)/k]/k$. thus, the value of a share is the present value of all dividends plus the present value of all capital gains as shown in equation (i) can be rewritten to show the effect of dividend or retention policy on the market value of the share which will lead to the maximization of shareholder's wealth.

$$\frac{P=D1V + (r/k)(Eps - D1V)}{K} \quad - \quad - \quad - \quad (2)$$

Myron Gordon (1962) develops one very popular model explicitly relating the market value of the firm to dividend policy assumptions;

- a. **All equity firms:** The firm is an all – equity firm, and it has no debt.
- b. **No external financing:** No external financing is available. Consequently, retained earnings would be used to finance any expansion.
- c. **Constant return:** The internal rate of return (r) is constant.
- d. **Constant cost of capital:** The appropriate discount rate (k) for the firm remains constant.
- e. **Perpetual earnings:** The firm and its stream of earnings are perpetual.
- f. **No taxes:-** Corporate taxes do not exist.
- g. **Constant retention:** The retention ratio (b) once decided upon, is constant.

$$P = \frac{Eps (1 - B)}{K - br}$$

$$K - br$$

Where:

Eps	=	current earnings
b	=	retention ratio
r	=	rate of return
k	=	cost of capital

The logic underlying the effect of dividend on the shareholders' wealth was first described by Kirshman (1963) in his "A bird in hand is worth two in the bush". He attempted to prove that investors would be willing to pay a premium in order to acquire stocks with higher dividend rate. Both Graham and Dodd (1964) took up a similar stand when they said that "the typical investors would most certainly prefer to have his dividend today and let tomorrow take care of itself" (Pandey, 2005).

Ezra (1963) opined that the dividend may offer tangible evidence of the firm's ability to generate cash and as such the dividend policy of the firm affects the share price and subsequently its value.

2.4.3 THE IRRELEVANCE THEORY

According to Miller and Modigliani (M-M1961), under a perfect market situation, the dividend policy of a firm is irrelevant, as it does not affect the value of the firm depends on the firm's earnings that result from its investment policy. Thus, when investment decision of the firm is given, dividend decision – the split of earnings between dividends and retained earnings – is of no significance in determining the value of the firm.

There hypothesis of irrelevance is based on the following assumptions:

- a. **Perfect capital markets:** This is a situation whereby investors behave rationally, information is freely available to all transactions and flotation costs do not exist.
- b. **No taxes:** The value of company share is not affected by tax.
- c. **Investment policy:** The firm has a fixed investment policy
- d. **No risk:** Risk and uncertainty does not exist. Under M-M's assumption

r = discount rate
k = identical to all shares

Thus, the rate of return is given as:

$$r = \text{DIV} + \frac{\text{Capital gains (or loss)}}{\text{Share price}}$$

$$r = \text{DIV} + \frac{(P1 - P0)}{P0}$$

Hence, the valuation mode can be derived as:

$$P0 = \frac{\text{Div} + P}{(1+r)} = \frac{\text{DIV} + P}{(1+k)}$$

M-M believe that if the firm raises external funds by issuing debt instead of equity, share's dividend is irrelevant because the advantage of dividend payment will be offset by the availability of external source of financing.

The criticism of M-M hypothesis is that, it lacks practical relevance. There is hardly any capital market in the world that is perfect; there assumption about non-existence of taxes is grossly unrealistic because investors are compelled to pay taxes on dividends paid. Normally, such taxes are already deducted before delivery from the dividend as narrated on the dividend warrants which shareholders get periodically.

The hypothesis argues that even under an uncertainty condition, dividend policy is still irrelevant. It says that the market prices of two firms with identical investment policies, business risk and expected future return, with uncertainty we can see that in reality dividend payment resolves uncertainty in the minds of investors and shareholders naturally prefer dividend to capital gain (Pandey, 2005).

Finally, Anao (1970) referring to the distinction between dividend policy and retained earnings, says "this distinction becomes apparent when one considers the evidence that investors normally place a high premium on a Naira of dividend than on a Naira of retained earnings in share valuation.

2.4.4 PECKING ORDER THEORY

The pecking order theory posits that firms prefer internal finance. They adapt their dividend payout ratios to their

investment opportunities, while trying to avoid sudden changes in dividends. Where there is fluctuation in profitability and investment opportunities, the internally generated cash flows could be greater than or less than capital expenditure. If it is more, the firm will pay off its debt or invest in short-term marketable securities. If it is less, the firm draws down its cash balance or sells off its short-term marketable securities.

However, if the firm must resort to external financing it starts with debt, then possibly hybrid securities such as convertible bonds, and then equity as a last resort. The pecking order theory assumes that debt ratios change when there is an imbalance of internal cash flow, net of dividends and real investment opportunities. Thus highly profitable firms with limited investment opportunities try to maintain a low debt ratio while firms whose investment opportunities outrun internally generated funds are driven to maintain a high debt ratio.

The problem with this viewpoint is that it assumes that dividend can only be paid in cash. While cash dividend is what matters to most investors, it is not the only form of dividend payment. A firm may elect to pay common stock dividends or declare a stock split. Brigham and Houston, (1998), Pandey (1999) and Mainoma (2001) argue that both stock split and stock dividend do not by themselves alter shareholders wealth. Earnings per share and the market price of common stock decrease in proportion to the amount of shares distributed and each shareholder's proportion of ownership remains unchanged.

However, several empirical studies have shown that stock splits or stock dividend can have informational content in the short-run especially where a firm's earnings per share are growing rapidly and the stock split or dividend announcement is followed by an eventual increase in earnings and dividends. This is because investors take stock splits/dividends as signals of higher future earnings and cash dividends (Baker, 1958; Fama et al, 1969; and Grinblatt et al, 1984).

Another problem associated with the viewpoint is that it assumes that retain earnings is the only source of financing business growth. Empirical studies carried out in India by Chakraborty (1975) and Pandey (1985) revealed that firms finance a significant proportion of their assets using external debt, including current liabilities. Companies were found to employ trade credit as much as bank borrowings. Thus while the viewpoint that dividend policy relates to the determination of dividend payout is acceptable for theoretical purposes, its practical relevance and application are limited.

The term dividend in a general sense refers to cash paid out of current or accumulated profit. The term "distribution" is used for payment made by a firm to its owners from sources other than current or accumulated earnings (Ross et al, 1996). Dividend payment therefore involves cash outflow. Profits and cash flow vary overtime as is the case with investment opportunities. This could probably suggest that firms often

vary their dividends overtime, increasing them when cash flows are large and the need for funds is low, and vice-versa.

However, Lintner (1956) and later Fama and Babiak (1968) observed that firms in practice focus on dividend changes than on absolute levels. Thus managers “smooth” dividends and are reluctant to make dividend changes that might have to be reversed. Consequently, the level of dividends is more stable than the level of earnings. What this tends to suggest is that managers consider dividend stability as a desirable policy in practice. According to Pandey (1999) shareholders seem generally to favour this policy and value stable dividends higher than fluctuating dividends.

The implication of the preceding discussion is that it is unrealistic to assume that a firm’s debt ratio and investment opportunities will remain constant. This therefore suggests that it will be difficult in real life, except for the purpose of theorizing, to separate a firm’s dividend decision from its investment and financing decisions.

2.5 INFLUENCE OF SHARE PRICING ON DIVIDEND GROWTH

Pricing of securities is basically a process of estimating return and risk. Risk here means the variability of returns. Securities must be measurable and estimated for, to be considered worth investing in. pricing and valuation of securities in both the primary (new issues) market and secondary market and secondary market is different. In fact it is done by different regulatory bodies and is affected by different factors. In Nigeria, security pricing in the new issues market is determined by the Securities and Exchange Commission, in conjunction with the Nigerian Stock Exchange, issuing Houses, stockbrokers, investment advisers and quoted corporate bodies of the market. The price of a share traded in the secondary market is really a function of the forces of supply and demand for that share. The attractiveness of the share in terms of returns it offers investors and the risks associated with earning those returns

on the other hand determines the demand and supply of the share.

The value of equity security equals the present value of its future income. In other words, the value of security is the discounted value of a future stream of dividends. In fact, investment objective is mainly about the earning of a certain percentage of return in consonant with a certain level of risk. In view, funds are invested in companies with high potential future earning power of a firm.

Issuing houses consider the exercise of appropriate pricing important to avoid under- and over-valuation of the securities. In the case of over-valued securities, the issuing house, especially if the issue is underwritten, would end up not being able to mobilize sufficient funds. Most of the securities will be taken up by the underwriters and as such eventually be narrowly held due to lack of sufficient public demand. On the other hand, under-valued securities lead the issuing house to end up raising less money than would have

been the case had the securities been appropriately valued. This shakes investors' confidence in the market. This is because equity shares are the most complicated securities than those of fixed income securities in terms of pricing.

Furthermore, activity of any stock exchange is often an indicator of economic performance and the movements and behaviour of stock price behaviour have been proposed by researchers to include earnings, dividends and to an extent trading volume in a stock. However, the hierarchy of the prepotency of these factors has been a point of departure although, the importance of each of these factors, however have not been refuted. In a bid to reduce the controversy of what causes share price behaviour, several models have been developed in the literature that try to give some direction as to what the value of a share should be in the secondary market. These arguments are often referred to as Dividend Relevance and Irrelevant. Dividend is that portion of an organizational earning that is distributed to shareholders as compensation or return on their investment dividend valuation models

recognize dividend as the critical variable that determines the investments worth of equity stock.

Although, the significance of future returns in the investment decision of an investor is widely accepted, there is no unanimous agreement on which particular variable among dividend and earnings should be incorporated in the investor's decision model. Some have argued that forecasted earnings should be used in the model-dividend in the model-dividend relevant proponents, and yet some have proposed a combined use of earnings and dividends in linear regression models.

The proponents of the predominance of dividend payment on stock price behaviour include Linter (1956) who argued that the payment of a dividend is a clear proof that the company has been able to generate cash as result of its operations. He posits that the managers of the company that have changed their expectations of the future may regard a change in the dividend of a company whose policy has been one of dividend stability as a signal.

Gordon (1962) argued that the market value of a firm as adjudged by the share price is related to its dividend policy. This model –Gordon’s dividend capitalization model- posits that the value of a share depends on the dividend income that the investor expects to earn capitalized at an appropriate discount rate. The basic argument here is that the market value of stock equals the present value of an infinite stream of future dividends, where dividends per share are expected to grow when earnings are retained.

Gordon further indicated that uncertainty on the part of investor increases at an increasing rate so that they will near dividends proportionately more highly than dividend payable in the more distant future.

Graham et al (1962) also viewed the whole valuation problem as being that of finding the present value of future payments (dividend). “The standard method of valuation of individual enterprises is the expected future dividends at an

appropriate rate of return". In an empirical research to examine the superiority of dividends over earnings in the determinations of market prices of equity shares, they are subject to random influences and distortion introduced by accounting conventions whereas dividends are increased only when it seems that they can be maintained at the new level.

Also, Solomon (1963) encapsulated the dividend relevance argument with the fact that dividends often offer tangible evidence to a firm's ability to generate cash and therefore the dividend policy affects share price. Further studies by Ball and Frown (1975) concluded that dividends are responsible for nearly all the gains ultimately realized by the investor. They came to this conclusion because market value in most cases depends primarily on the dividends rate.

A more sophisticated argument for a relationship between the value of the firm and the dividend payout is that, although the dividend decision cannot change the present value of cash payments to shareholders; it can affect the

temporal pattern of payments. This is the “bird-in-the-hand” theory, which explains why investors are often willing to pay a premium in order to acquire stocks with higher than average rates of dividends.

These arguments of dividend relevance, to our view, appear more appealing and convincing than the attitude to different patterns of cash dividends does affect market prices of securities-some may prefer stable dividend payments over the years, some indifferent to the magnitude of payments but to risk ability. Notwithstanding, dividends depend on earnings and therefore it is extremely difficult for a firm to separate dividend policy from its earnings. Earnings must be positive for appropriation to dividend and retention purposes as assumed by the dividend relevant proponents. In effect, the argument is between dividends and earnings retention as they influence share price behaviour per se.

The counter argument by the dividend relevance proponents is that investment decisions are completely

independent of dividend policy. In other words, a firm's future earnings constitute a major determinant of its current stock value. Thus a firm can pay any level of dividends it wishes without affecting investment decisions since dividend policy does not affect shareholders' wealth.

The major advocates of this school-Modigliani and Miller (1961) argued that in the long run equilibrium situation, the value of two otherwise identical companies would be the same, regardless of their dividend policies.

The major problem with this school is the unwholesome assumptions of capital markets perfection and tax-free investment climate. Most capital markets, especially emerging markets like that of Nigeria are imperfect. More so, in Nigeria there is the presence of dividend withholding taxes and other real life situation reduces the MM argument to mere theoretical speculation.

2.6 DETERMINANTS OF DIVIDEND PAYOUT POLICY

Researchers are not unanimous on the factors that influence dividend policy decisions. Some advance theoretical or empirical reasons; others concentrate on practical arguments.

Brigham and Houston (1998) make comprehensive discussions on the practical factors that influence corporate dividend policy. They are categorized into: constraints on dividend payments; investment opportunities; availability and alternative sources of capital.

Constraints on Dividend Payments:- Basically, five constraints are usually imposed on the dividend decision makers. These include:

- i. **Bond Indentures:** Debts contracts often limit dividend payment to earnings generated after the loan was granted.
- ii. **Preferred Stock Restrictions:** This restricts payment of common stock dividends if a firm has omitted its preferred dividend.

- iii. **Capital Impairment Rule:** most countries forbid payment of dividends above the balance sheet item 'retained earning'.
- iv. **Insolvency Rule:** legal requirements prevent a firm from paying dividends while insolvent.
- v. **Availability of Cash:** cash dividends can only be paid by cash. Cash shortage can therefore restrict dividend payments. Ability to borrow can sometimes offset this restriction.

Investment Opportunities:- Investment opportunities can influence dividend payment negatively or positively. Firms with higher investment opportunities will tend to maintain a low target payout ratio. On the other hand, if a firm's investment opportunities are low, the firm will tend to maintain a high target payout ratio. The ability to accelerate or postpone investment projects will permit a firm to adhere more closely to a stable dividend policy.

Alternative sources of capital:- The ability of a firm to raise additional capital from external sources will be determined by the flotation costs of selling new stocks, substitution of debts with equity and dilution of control.

- i. **Floatation Cost of selling New Stocks:** Where a firm needs to finance a given level of investment by issuing new common stocks, consideration must be given to flotation costs. Where flotation costs are high, it may be better for the firm to set a low payment ratio and finance the investment through retention rather than through sale of new common stocks. On the other hand, a high dividend payout ratio is more feasible for a firm whose floatation costs are low.
- ii. **Ability to Substitute Debts to Equity:** Just like equity, if a firm can adjust its debts ratio without raising costs sharply, it can pay the expected dividend, even if earnings fluctuate by using a variable debt ratio.
- iii. **Dilution of control:** If shareholders are concerned about dilution of control, the management may be

reluctant to sell new stock hence the company may retain more earnings.

In addition to the factors mentioned above, Pandey(2000) identifies inflation as another factor that can determine dividend policy. According to him, financial statement is usually prepared on historical cost basis. Depreciation is charged on the basis of the original cost of an asset. During inflationary period, funds saved on account of depreciation would not be adequate to replace assets or to maintain the capital intact. Consequently, to maintain the capital intact and preserve the earnings power of the firm, earnings would be retained.

Mahapatra and Sahu (1993) find cash flow as a major determinant of dividend followed by net earnings, while Bhat and Pandey (1994) indicated that current earning is the major determinant.

2.7 RELEVANCE OF DIVIDEND PAYOUT TO THE VALUE OF THE FIRM

The theoretical documentation on the relevance of dividend policy to the values of the firms started about seven decades ago. Michealy et al (1995) puts forward “the bird in the hand” argument, which posits that stockholders often act upon the principle that “a bird in the hand is worth two in the bush” and for this reason investors are willing to pay a premium for stock with higher dividend rate just as they discount the one with lower rate.

Long (1978) argues that a typical investor would prefer the dividend of today and let tomorrow take care of itself. They find a ratio of 4:1 i.e. a dollar of dividend has four times the average impact on price, as does a dollar of retained curtailed earnings.

Mainoma (2000) argues that the discounted value of near dividends is higher than the present worth of distant dividends, and that between two companies with the same

general earning power and same general position in an industry, the one paying the higher dividend will almost always sell at a higher price.

Harkavy (1999) presents a statistical analysis of the relationship between retained earnings and common stock prices. He concludes that while common stock prices vary directly with dividend payout ratios at any given time, their degree of appreciation over a period of time is associated with the proportion of earnings, which are retained. Only a brief reference is made to the fact that the crucial consideration is the profitable utilization of investors' funds. No attempt is made to arrive at the magnitude of the effect on common stock price.

Rose (1996) argues that retained earnings influence stock price principally through their effect upon future dividends. He then attempts to fashion out a theoretical model, which depicts the relationships between dividend policies and common stock prices. His methodology restricts itself to the common stocks of large public corporations because of the imperfect market for the securities of small companies and of

the close identification of small firms with their principal shareholders. The study covers longer periods to permit abstraction from the distortions caused by short-run speculative considerations. He makes the following assumptions in his model:

- i. That earnings retention is the sole source of additional fund.
- ii. That all increments to earnings are immediately distributed to shareholders.

He concludes that the lower the dividend payout ratio, under such circumstances, the higher is the value of growth stock, which he explains as that common stock which possesses superior prospects for long-term appreciation.

Walter (1965) argues that dividend policy affects the value of the firm. His model reveals that optimal dividend policy depends on the relation between the firm's rate of return, r and its cost of capital, k . He tests his model using three categories of firms: growth normal and declining firms. For growth firms, Walter concludes that market value per

share will be maximized as the rate of return, r is greater than cost of capital, K ($r > k$), when dividend payout ratio is zero. For normal firms, its rate of return r is equal to the cost of capital, K ($r = K$), and the firm is not affected by dividend payout ratio. For declining firms, since its rate of return, r is less than the cost of capital, K ($r < k$), the value of the firm will be maximized when the dividend payout ratio is 100%.

Walter's conclusions are based on a number of assumptions:

- i. The firm finances all investments through retained earnings; i.e. no debt or new equity is raised.
- ii. The rate of return, r and cost of capital, K are constants.
- iii. All earnings are either distributed as dividend or re-invested internally immediately.

Walter's model is criticized years later by Pandey(2000). He argues that the simplified nature of the model has conclusions that cannot be tested in real life situations. However, accepting his assumptions such as no further external fund to be raised implies that the dividend policy and

investment policy cannot be optimized. His assumptions of constant rate of return, r and constant cost of capital are over generalization. The rate of return decreases as more investments occur as the firm raises its cost of capital.

Sterk (1990) conducts an empirical study on corporate dividend policy of the United States of America (U.S.A) firms and finds out that the dividend decision making process is based on the change in the existing rate of dividend and not the amount of the newly established rate. He conducts the study on 28 diverse groups of companies and sets up a simple theoretical model of corporate dividend behaviour.

He finds in the course of the study that:

- i. Managers focus on the change in the existing rate of dividends payout and not on the amount of the newly established payout;
- ii. Most management seek to avoid making changes in their dividend rate that may have to be reversed within a year or so.

- iii. Major changes in earnings are out in line with existing dividend rates, which are the most important determinants of the company's dividend decision.
- iv. Investment requirements generally have little effect on modifying the pattern of dividend behaviour.

Sterk (1990) could not; however, state what would happen with such a change in company dividend policy could give to the shareholders regarding the company.

Pruit and Gitman (1991) presents argument to show the effect of change in dividend policy on value in his modified model and concludes that investors will prefer current dividends to reinvestment. He maintains that under certain types of uncertainty, retained earnings would be preferred to dividend if the alternative is a new leverage, investors will prefer higher dividends associated with higher corporate debts to greater retention and lower dividends.

These findings are predicated on the assumptions that:

- i. The average holder of common stock possesses, at the margin of his portfolio, a very strong preference for current income this may hardly persist over time.

- ii. The expected increase in earnings arising from increased per-share investment is viewed as involving a much higher degree of risk than that attaching to earnings on existing corporate assets.
- iii. The profitability of incremental corporate investment, as viewed by shareholders, is extremely low relative to the competitive yield prevailing in the stock market. This seems suspects as marginal profit rates in a substantial number of industries might be quite high.

Morgan (1982) tries to quantify the effect of dividend policy change and argues that the market price of shares is a function of the present value of estimated cash flow realizable from the share. The net cash flow consist of the estimated dividends receivable over the share holding period and the market price realizable upon the disposal of the shares.

Morgan accomplishes the above tasks with underlying assumptions in his model. These include:

- i. Dividends continue to grow at a constant rate for an extended period of time.

- ii. The growth rate is assumed to be less than the required return on equity (k_e) and that, if this were not so, in the long run the firm would grow impossibly large.
- iii. The investors are risk averters and they consider dividends as less certain dividends as less certain than new dividends.

Morgan concludes that investors being averse to risk, would prefer current dividends to re-investment. That current dividend is preferred because they are perceived as less risky than future dividends, which might arise from re-investment. This means that the market price of a firm that pays dividend in the future. The model is criticized for confusing dividend decision with investment decision.

Bajaj & Vijh (1990), Fisher (1961), and Lintner (1980) document empirical evidence to show that dividend is relevant to the value of the firm and that the multiplier contribution of dividend to the value of the firm is several times higher than that of retained earnings.

Friend and Puckett (1999) disagree with Lintner and others on the superiority of dividend multiplier over retained earnings. They identify certain behavioral assumptions, which Lintner and other might have implied. These:

- i. The average holder of common stock possesses, at the margin of his portfolio, a very strong preference for current income over future income (a situation which hardly could be expected to persist over time).
- ii. The expected increase in earnings arising from increased per-share investment is viewed as involving a much higher degree of risk than that attaching to earnings on existing corporate assets.
- iii. The profitability of incremental corporate investment as viewed by shareholders is extremely low relative to the competitive yield prevailing in the stock market.

2.8 IRRELEVANCE OF DIVIDEND PAYOUT TO THE VALUE OF FIRM

Miller and Modigliani (1961) support the argument on the irrelevance of dividends payout policy on the value of the firm.

They argue that given the investment decision of the firm, the dividend payout ratio is a mere detail. It does not affect the wealth of shareholders. According to Miller and Modigliani (1961), the manner in which the earnings stream is split between dividends and retained earnings do not affect the value. Their position is that the effect of dividend payments on shareholders' wealth is offset exactly by other means of financing.

Lang and Litzenberger (1989) attempt to distinguish between signaling and agency explanations by separating firms that are presumably over-investing from all other value maximizing firms. They find higher abnormal returns for over investing firms for which the agency-related benefits of a dividend payment increase are higher compared to value-maximizing firms.

2.9 CONTROVERSIAL ISSUES ON DIVIDEND POLICY

There are conflicting opinions regarding the impact of dividend on the valuation of the firm. (Pandey, 2000). In effect,

two schools of thought have emerged from the analysis. According to one, dividend has no effect. The other one said dividend has effect on the value of the firm. Dividend decision of the firm is yet another crucial area of financial management. The important aspect of dividend policy is to determine the amount to be retained.

According to the analysis of irrelevancy model, it stipulates that dividend is irrelevant to the value of the firm as dividend policy is only a part of financial decision making. It is only a residual decision, dividends are passive and residual. The implication therefore, is that the payment of dividend out of profit or retention of earnings will depend upon the availability of investment opportunities. Thus, when a firm has sufficient investment opportunities, it will retain the earnings to finance other activities. Conversely, if acceptable investment opportunities are inadequate, then the earning is distributed among the shareholders.

To test whether the investment opportunities are adequate, the relationship between the return on the investment (r) and the cost of capital (k) is considered.

1. If $r > k$, the firm accept the investment opportunities. In order words the firms can have a return (r) higher than its cost (k).
2. If the retained earning falls short of (k), it will raise external funds (both equity and debt) for the shortage.
3. But if retained earnings however exceed the required funds the need to declare dividends is inevitable and this dividend will fluctuate from year to year depending on the investment.

Invariably, when there are profitable investment opportunities, dividend payout (the ratio of dividend to net earnings) would be zero (0) and when there are no profitable opportunities, the dividend payout (D/P) ratio will be 100. For situation between these extreme, the D/P ratio ranges between zero and 100.

The affirmation that dividends are irrelevant or are a “passive residual” is based on the assumption that the investors are indifferent between dividends and capital gains. So long as the firm will be able to earn more than equity capitalization rate (k), the investors would be content with retaining the earnings. While if the contrast happens, the investors would be content with dividends.

Walter (1958) posits in one of the earliest theoretical dividend models, that dividend is relevant to the investment policy of the firm. According to him the key variables to be noted are based on the relationship between r and k where.

R = return on the firm's investment

K = cost of capital required rate of returns.

So that when $r > k$ (required rate of return exceeds cost of capital), dividend should not be paid. In the event of $k > r$ (required return greater than expected return), dividend should be distributed so that the shareholders could re-invest their

funds outside of the business. By implication therefore the shareholders could earn a higher returns investing elsewhere.

Walter altogether brought out three divisions of the firms

1. Growth
2. Normal
3. declining

Growth: - Walters approach suggests that those firms capable of earning more than the anticipation of the investor ($r > k$) would be called growth firms. The optimum dividend policy of the growth firm would be established by the dividend payout (D/P) ratio of zero which means that firms should plug back entire earning within the firm because such policy would lead to maximization of market value of shares.

Normal firm: where $r = k$. it is a matter of indifference between retention and dividend therefore D/P ratio will be ranging between zero and 100 consequently, the market price of share will remain constant and optimum policy may not be possible.

Declining firm: - There are unprofitable firm where companies without profitable investment opportunities will have $k > r$. Optimum dividend policy in this case would be established by the function of a D/P of 100 such that it would be profitable to pay off the earning. Consequently, the market value of the share of these investors market value of the share of the investors would be maximized by the distribution of entire earning as dividends.

Linter (1989) however contends in his observation that dividends represent the primary and active decision variable while retained earnings are largely a product of dividend action taken in terms of well-established policies and practices. Concluding from the systematic empirical study he carried out, he made the following observation:

1. That corporate management has a target dividend payout ratio based on various considerations and that they try to achieve it gradually over time.

2. That the dynamic of decision making precede rest on "partial adjustment mechanism". In this mechanism dividend changes in any period is a fraction of the speed between the targets pay out ratio and the pay out in the previous period. Where this fraction implies the speed of adjustment or how fast the actual pay out reaches target ratio.
3. The shareholders have a preference for a steady income for their investment. In like manner, this observation maintains that management also benefit where there is a policy of stability as it would provide some is cushions in the event of fluctuation in earnings. This happen when only a fraction of the differences between the target payout ration and the previous period's payout is paid by the corporate management. An increase in the stable dividend is considered only when the management feeds that the increase can be sustained.

4. That current earning is a crucial determined of dividend payment give the target payout ratio and speed of adjustment of fraction because it is perceived as the ability to pay divided.

Linter (1989) also observed that the target payout ration and the speeds of adjustment ratio are determined by multifarious internal and external factors.

Since $E=RA$, A =total asset.

The above equation can be expressed as:-

$$P_0 = E (1-b) = E/k = rA/k \dots\dots\dots (1)$$

Equation (1) show that regardless of the firms earning or riskness (which determine k) the firms value is not affected by the dividend policy and is equal to the book value of assets i.e. when $r=k$ dividend policy is irrelevant since b , which represent the firms dividend policy cancels completely out of the equation. This means that any funds distributed as dividend may be invested in the market at the rate equal to the firms internal rate return.

Consequently, shareholders can neither lose nor gain by any change in company's dividend policy and the market value of their share must remain unchanged.

Considering the case of the declining firms where $r = k$ indicates that the retention ratio is zero or pay out ratio is 100% if $r = k$ then $r/k < 1$ which follow that market price per share is lower than the firms investment per share in asset. If the values of the retained earning increase, the value of the retained earnings increase, the value of the share continuously falls. This means rate of return is lower than k , which is equal to the rate available in the market profit retention clearly become undesirable from the share holders stand point. Each additional naira retained reduces the amount of funds that shareholders could invest at a higher rate elsewhere and thus further the value of the company's share.

Gordon (1962) argues that one very popular model explicitly relating the market value of the firm to dividend was developed by him Gordon based on the following assumptions.

- A. The firm is an all equity firm
- B. No external financing is available
- C. The internal rate of return of the firms is constant
- D. The appropriate discount rate for the firms remains constant.
- E. The firms and its stream of earning are perpetual.
- F. The corporate taxes do not exist
- G. The retention ratio are decided upon is constant thus the growth rate, $g = br$ is constant forever.
- H. $K > kr = g$. if this condition is not fulfilled we cannot get a meaningful value for the share.

Gordon said dividend capitalization model the market value of a share is equal to the present value of an infinite stream of dividend to be received by the share Gordon also brought out three division of the firm.

- a. Normal firms

b. Growth firms

c. Declining firms

In the case of normal firm where the internal rate of return of the firm equal its cost of capital i.e. $r = k$

$$P_0 = \frac{e_1 (1 - b)}{k - br} \text{ ----- (1)}$$

Where: - P_0 = Market price per share of time 0.

e_1 = current earning per share

k = all equity firms cost of capital

b = the fraction of retained earning

r = internal rate of return.

Under such condition the company should adopt a policy of contraction and disinvestments which would allow the owner to transfer not only the net profit but also paid in capital (or part of it) to some other more remunerative enterprises.

In the case of a growth firm where $r > k$ the value of a share will increased as the retention ratio increase under the condition of $r > k$. however, it is not clear that what should be

the value of retained earning to maximize the value of the share market price per share for instance, if $b = k/r$, equation (10) i.e. $p_0 = E (1-b)/k-br$ reveals that denominator $k-br$ becomes negative these absurd result are obtained because of the assumptions such as that r and k are constant which underline the model. Thus to get the meaningful value of the share according to equation (1) the value of retained earning should be less than k/r .

It could be noticed that under Gordon's model

- i. The market value of the share p_0 . Increase with retention ratio for the firms with growth opportunities $r = k$.
- ii. The market value of the share increased with payout ratio for declining firms $r < k$
- iii. The market value of the share is not affected by dividend policy

When $r = k$

The Gordon model is conclusion about dividend policy are similar to the conclusion of Walter model the similarly is

due to the similarities of assumption which underline both the models.

Modigliani and Miller (1961) presented most important and comprehensive argument is support of the irrelevancy of dividend. According to his hypothesis dividend policy has no effect on the share price and is therefore of no consequence. What matters is the investment policy through which the firm can increase its earning and thereby the value of the firms given the investment decision of the firm. The dividend decision is splitting the earning into package of retention and dividend is a matter of detail and does no matter under condition of perfect capital market national investors, absence of tax discrimination between dividend income and capital appreciation given the firms investment policy. It dividend policy may have no influence on the market price of share.

As hypothesized by $m - m$, Internal Rate of Return should be equal for all shares. If it is not so, the low return yielding share will be sold by investors who will purchase the

high return yielding shares. This process will tend to reduce the price of the low return shares and to increase the price of the high return shares. This switching will continue until the differential in rates is eliminated. This discount rate will also be equal in all firms under the mm assumption since there are no risk differences.

$$\text{M-M's valuation equation } \frac{(nd_1 + (n+M)p_1 - mp_1)}{(1-k)}$$

allows for the instance of new shares unlike Walters and Gordon's models. Consequently, a firm can pay dividend and raise funds to achieve the optimum investment policy. Thus, the optimum investment policies are not confounded in the M-M's models like Walters and Gordon models, as such M-M models yield more general conclusion. The investment programme of a firm in a given period of time can be financed either by retained earning or the issuance of new share or both.

A firm which pays dividend will have to raise funds externally to finance its investment plan. M-M's agreement that dividend policy does not affect the wealth of the shareholders implies that when the firms pay dividend its advantage is affected by the external financing. This means that the terminal value of the share (say, price of the share at first period if the holding period is one year) declines when dividends are paid thus the wealth of the shareholders dividend plus terminal price remain unchanged. As a result, the present value per share after dividend and external financing is equal to the present value per share before payment of dividend, thus the share holders indifferent between payment of dividends and retention of earnings.

M-M assert that their hypothesis of dividend irrelevance is not affected if the Firm raises external funds by issuing debt instead of share. When external financing involves debt, M-M invoke their different hypothesis with respect to leverage.

2.13 DIVIDENDS AND UNCERTAINTY

THE BIRD – IN – THE HAND ARGUMENT

According to Gordon's model dividend policy is irrelevant where $r=k$ when all other assumptions are held valid. However, when the assumptions are modified in close conformity with reality, Gordon concludes that dividend policy does affect the value of a share even when $r=k$. This view is based on the assumption that under conditions of uncertainty, investors tend to discount dividend (capital gain) at a higher rate than they discount near dividends. Investors behaving rationally are risk averse and therefore have a preference for near dividend to future dividends.

The bird – in – the hand argument has been expressed more convincingly and in formal terms by Myron Gordon. According to him uncertainty increases with futurity, i.e. the further one looks into the future the more uncertain dividends become.

Accordingly, when dividend policy is considered in the context of uncertainty the appropriate discount rate k cannot

be assumed to be constant. In fact it increase with uncertainty investor prefer to avoid uncertainty and would be willing to pay higher price for the share that pay the greater current dividends. All other things held constant, if investors discount distant dividend at a higher rate than near dividend increasing the retention ratio has the effect of raising the average discount rate, k or equivalent lowering share price.

2.14 DIVIDEND POLICY AND SHAREHOLDER RIGHTS

Jensen and Meckling (1986) argue that modern corporations are plagued by two types of agency conflicts. First, an agency conflict can occur between shareholders and managers. Managers who own less than 100% of the firm's equity may not act in the best interest of the shareholders, potentially running the firm so as to maximize their private benefits rather than those of the shareholders.

Second, there can be an agency conflict between shareholders and creditors. Here, an agency conflict occurs when shareholders invest the borrowed funds in risky

projects, thereby exposing the creditors to the level of risk that is not commensurate with the return they are promised.

Dividend payouts have been argued to mitigate agency costs in at least two ways. First, predicated on the early work by Berle and Means (1932), Jensen (1986) argues that a firm with substantial free cash flows is inclined to over invest by adopting marginal investment projects with negative net present values. If managers have overinvestment problem, dividend will, all else being equal, reduce the amount of free cash flow, thereby mitigating the overinvestment problem. Hence, dividend payout helps control agency problems by getting rid of the excess cash that otherwise would result in unprofitable projects.

Second, Easterbrook (1984) argues that dividend function also act as a mechanism for controlling agency costs by exposing the firm to the primary capital market monitoring. Higher dividends increase the likelihood that the firm will have to issue new common stock in the capital markets more often.

This, in turn leads to an investigation of management by investment banks, security exchanges and capital suppliers. The importance of monitoring by investment banks has been recognized by several studies. (Baghat, 1986; Smith, 1986; Hansen and Torenrosa, 1992; Jain and Kini, 1999).

The severity of agency costs is likely to be inversely related to the strength of shareholders rights (Gompers et al 2003). Firms where shareholder rights are more suppressed are more likely to experience a wider divergence of ownership and control. They are therefore, more prone to agency conflicts because dividend payout are related to agency costs and agency costs, in turn, are associated with shareholder rights. It can then be concluded that dividend policy is influenced by the strength of shareholder rights.

2.15 DIVIDEND POLICY AND AGENCY THEORY

Existing empirical evidence shows that many firms paid dividends despite their agency cost while other firms increasingly use share repurchases to distribute cash to

shareholders. (Dittmar et al, 2003; Allen and Michealy,2002; etc). Attempts have also been made to examine the role of corporate governance on payout policy design from the perspective of pre-commitment. It was proposed that a pre-commitment interpretation of the role of governance in the design of payout policy and the dividends repurchases trade off can be used to test the effect of external and internal corporate governance on the incidence and level of overall cash distributions. These also include dividends, repurchases, composition of payout and payout policy type.

Easterbrook (1984) proposes that dividends reduce the agency costs of free cash flow and minimize suboptimal managerial behaviour. The free cash flow theory can be extended to form predictions about dividends and governance. Since good governance limits the potential for suboptimal managerial behaviour, the agency costs and the cash distribution required to mitigate them are lower. Optimal payout policy design aimed at maximizing firm value would therefore predict a negative relation between governance quality and the lever of payout.

Harford et al (2004) and Dittmer and Mahti-Smith (2005) observed that a positive relationship exist between governance and the level of cash holdings driven by quicker dissipation of excess cash reserves in the presence of entrenchment. Although dividend is a re-shown to respond to low investment opportunities, ownership structure, and CEO compensation, there is a lack of empirical evidence on the role of governance in the determination of the type and structure of corporate payout.

Examining difference in shareholder rights protection around the world, La Porta et al (2000) find that dividends are lower in countries with weaker investor protection. Consistent with it, cash holdings of firms are decreasing in the level of the investor protection (Dittmar et al,2003; Allen and Michealy, 2002; and Baker et al, 2002) provide detailed surveys of existing work on payout policy.

Jensen (1986) used agency predictions of the free flow theory to justify the presence of dividends and, more generally,

corporate payout. However, the free cash flow theory does not explain the use of different forms of corporate payout and the choice of repurchases over dividends since any form of distribution of excess cash to shareholders would address the agency problem.

First, it was argued that firms use policy to mitigate the agency conflict due to poor governance. However there is an important distinction between dividends and repurchases from the perspective of pre-commitment that explains the effect of governance on payout policy design and the dividends repurchase tradeoff. Existing empirical evidence suggests that repurchases are more irregular than dividends and primarily serve to distribute temporary windfalls of cash. The flexible nature of repurchases lowers the cost to the firm and lowers the cost to the firm and allows expose adjustments of payout a significance drop in market value.

At the same time, Flexibility and irregular nature of repurchases makes them less effective at resolving the

manager-shareholder agency conflict. Therefore, absence of a strong monitoring structure exacerbates the agency conflict and increase demand for dividend pre-commitment. Dividends are used as a part or as sole component of the payout policy instead of a standalone repurchase policy.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 INTRODUCTION

This chapter takes a look at the type of research method employed, the various sources of data and method used in the collection of data. The techniques used in the analysis of data are also enlightened.

Methodology is the “analysis of, and rational for, the particular method or methods used in general” (Jankawicz, 1991). Asika, (1991) define research methodology as ‘that which help the researcher to develop a mental image of the structure for gathering the data and analysis that will follow’. Nworge (1991) defined it as a “blue print or a plan which specifies how data relating to a given problem should be collected and analyzed, it provides the procedural outline for the conduct of any investigation”.

The research methodology requires the specification of procedures, which involves the decisions on what information to generate, the collection of data, the object to be measured and the way in which the data is to be analyzed. According to Tull and Hawkins (1980), research methodology as 'the separation of procedure for collecting and analyzing the data necessary in solving the problems at hand such that the difference between the cost of obtaining various levels of accuracy and the expected value of the information associated which level of accuracy is maximized.

3.2 RESEARCH DESIGN

Research design means structuring of investigation aimed at identifying variables and their relationship to one another. It is used for the purpose of obtaining data to enable the researcher to test the hypothesis or answer research questions stated in the course of the study. It is a designed used by researcher as a scheme or a blue print for data collection prior to the actual study.

The choice of research design or method to be used by a researcher for the acquisition, analysis and interpretation of data is very important, and it depends on the problem at hand. The research method or design adopted for this study is the descriptive approach. As Ndaji (1984) put it, "descriptive research is concerned with the collection of data for the purpose of describing and interpreting existing conditions, prevailing practices, beliefs, attitudes, on going process". It is thus that a research method which specifies the nature of phenomenon.

According to Osuala (1993), descriptive research is a prerequisite for finding answers to questions, it is not in itself sufficiently comprehensive to provide answers". Descriptive or survey research as the name suggests used to descriptive what is really on this field. It involves the collection of first-hand information and data from primary sources by the researcher. This may be done either by observation or inquiry through the use of questionnaire.

In line with the above facts, this assessment is conceived with the collection of relevant data for the purpose of

evaluating the dividend growth pattern of Nigeria Deposit Money Bank. It is pertinent to state clearly that the type of descriptive research adopted is sample survey. This is to help us in selecting an unbiased sample; the result of which will then be used to make generalization on the population.

3.3. POPULATION AND SAMPLE TECHNIQUE

Population is defined as “the group of objects, elements or units about which the study will make some conclusions”, (Ham 1971). According to Asika (1991) population “a census of all the elements or subjects of interest and may be finite or infinite.

For the purpose of this study, our population is defined as the entire banks that survive the recent bank consolidation. In all there are 25 banks and these forming our population for this study. In the process of research, it is often not possible to cover the whole population especially the case of exceeding large number of individuals, subjects or events in a particular research even when it is finite. This is because the resource and circumstances of research are often tight. Hence,

sampling is therefore implored as a mechanism of choosing designed quantities or proportion as representation (samples) of the whole population.

Sampling Technique

Osuala (2001) has defined sampling as the "taking of any portion of a population or universe as a representative of that population or universe." Except when a complete census is taken, research is almost invariably conducted by means of a sample, on the basis of which generalization applicable to the population from which the sample was obtained are reached.

According Yekeen, (2006), sampling techniques are methods or approaches to selecting samples from the population that ensure a satisfactory degree of representation and unbiasedness

In determining our sample size, the simple random sampling technique was used. In this method, the population is grouped into some together. It involves the classification of an otherwise homogeneous group into one group before the selection.

For the purpose of this study, the sample has been selected by simple random sampling techniques.

The selection was made by a simple raffle draw. The researcher writes down the names of the twenty five banks and folds them in a sheet of papers. Each one is picked at random until the required sample selected.

From the above explanation the sample selected were shown in the below table.

S/N	BANKS
1.	First Bank Nig. Plc
2.	Union Bank Nigeria Plc
3.	United Bank for Africa Plc
4.	Afribank Nig Plc
5.	GTbank Nig Plc
6.	Access Bank Nigeria Plc
7.	Standard Chartered Bank Nig Plc
8.	Corporative Development Bank
9.	Wema Bank
10.	FSB International Bank

Source: Daily official List of Nigeria Stock Exchange, 2000 - 2006

3.4 DATA COLLECTION TECHNIQUE

This is a procedure, or a technique by which a researcher go about gathering data for its research work. Basically there are two source of data collection. They are primary and

secondary source of data collection. There are two basic methods of collection of primary data. These are: communication and observation approaches. The communication approach involves the collection of primary data through the existence of actual communication between the researcher and his or her subject(s) of interest.

For the purpose of this study, we employed both primary and secondary source. The primary source involves the use of questionnaire, observation and interview. While the secondary source involves the review of related text books and daily official list of Nigeria stock Exchange.

3.5 DATA ANALYSIS TECHNIQUES

The data collected were statistically analyzed using t-test comparing between two means and correlation coefficient. We adopted these models to test the mean of the budgeted and the means of the fund that was actually released and to also establish the relationship between the fund generated and fund expended among the various universities under study respectively.

The models are given as follows:

The t- test model is given as follows:

$$t = \frac{\bar{X} - \mu}{\sqrt{\frac{\delta^2_x}{n} + \frac{\delta^2_\mu}{n}}}$$

Where: \bar{X} = Mean of the population representing the budgeted (expected) funding.

μ = Mean of the sample size representing the actual fund released.

δ^2_x = Standard deviation of the population

δ^2_μ = Standard deviation of the sample size

n = Number of years under consideration.

Decision: Accept the null hypothesis if the calculated value is greater than the table value. Accept the alternate if otherwise.

While the correlation coefficient is as follows:

$$r = \frac{n\sum(xy) - \sum x \sum y}{\sqrt{[n(\sum x^2) - (\sum x)^2][n(\sum y^2) - (\sum y)^2]}}$$

Where:

n= Number of years under study

x = Mean of the dividend within the period understudy

y = Inflation rate for the period understudy

3.6 JUSTIFICATION FOR METHODS USED IN THE STUDY

The study employed descriptive research method. The reason for the use of this method is premised on the fact that the researcher wants to describe an existing condition. Other research design like historical research method was equally adopted to complement the descriptive method. Random sampling is the sampling method used in this study. The rationale for the choice of this sampling method is that the population of this study is a homogeneous in nature and it is the most appropriate method of sampling to be adopted.

In testing our hypotheses, we adopted student t-test and Pearson correlation coefficient. The reason for the use of student t-test was to enable us to compare the means of the variable under consideration. While, the Pearson correlation was used to show the relationship between the variables under consideration.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 INTRODUCTION

In the course of this study, we collected both primary and secondary data. In this chapter, we shall present, interpret and analyze the data collected from the above sources. We would equally test the hypotheses formulated earlier in chapter one. Results and discussion of the research findings would equally be discussed in this chapter.

4.2 DATA PRESENTATION AND ANALYSIS

Data on their own do not convey any meaningful information except they are broken down into a useful constituent with appropriate tool of analysis. As earlier stated, we made use of tables and variables in presenting our secondary data collected.

They are presented in the following order.

Table 4.2.1 Trend of Dividend per Share of the Study

Banks

	2000	2001	2001	2003	2004	2005	2006	Total	Average
ACCB	0.05	0.05	0.05	0.05	0.20	0.10	0.29	0.79	0.112
FB	1025	1.30	1.30	1.50	1.55	1.60	1.60	10.1	1.443
WB	0.15	0.25	0.45	0.10	0.10	0.10	0.10	1.25	0.179
UB	1.05	1.50	1.50	1.35	1.40	1.64	1.00	2.64	0.377
UBA	0.85	0.75	0.30	0.45	0.60	0.60	0.60	4.15	0.593
GB	0.23	0.44	0.50	0.05	0.45	0.45	0.07	2.19	0.312
FB	0.18	0.07	0.15	0.15	0.15	0.15	0.15	1.00	0.143
AF	0.10	0.15	0.15	0.48	0.48	0.20	0.20	1.76	0.251
COB	0.12	0.27	0.07	0.12	0.12	0.12	0.05	0.87	0.124
CH	0.18	0.52	0.30	0.30	0.25	0.25	0.20	1.75	0.250
	4.16	5.3	4.77	4.46	4.3	4.21	4.26	25.5	31.46

Source: Daily Official List, NSE, 2000-2007.

The above table 4.2.1 shows the trend of dividend per share of the various firms under consideration. The table presents to us the relative dividend per share of the various banks under consideration. It could be obtained that dividend paid by the

banks tends to in the same direction with the market share price.

Table 4.2.2 Trend of the Share Price of the Study Banks

	2000	2001	2001	2003	2004	2005	2006	Total	Average
ACCB	1.30	1.30	1.82	2.88	3.42	3.03	6.90	20.65	2.95
FB	22.81	23.60	21.81	20.00	23.10	32.00	36.90	180.22	25.75
WB	1.96	3.57	5.76	3.80	3.93	3.74	2.97	25.73	3.68
UB	27.19	24.91	20.98	25.00	20.55	25.48	24.50	168.61	24.09
UBA	12.30	11.00	5.71	10.50	9.10	12.52	26.50	77.63	11.09
GB	3.62	6.65	5.00	8.84	11.69	12.42	16.60	24.42	3.49
FB	3.50	8.39	6.02	2.89	1.27	1.14	1.21	52.94	7.56
AF	8.84	8.71	6.98	6.83	6.43	9.10	11.51	52.94	7.56
COB	0.97	1.29	1.49	0.96	0.73	1.12	0.93	7.49	1.09
CH	4.18	1.90	3.49	3.59	2.90	3.90	6.90	26.86	3.84
Total	59.48	90.74	79.06	85.29	83.32	164.45	134.92	637.49	1334.75
Average	5.95	9.07	7.91	8.53	8.33	10.45	13.49	63.75	190.68

Source: Daily Official List, NSE, 2000-2007.

The above table 4.2.2 shows the trend of share price of the various firms under consideration. The table present to us the relative share price as compare to the dividend per share. It

could be observed that dividend paid by the banks is a function of the market share price. The average share price and that of dividend per share shows clearly that the banks with high average share price equally have high average dividend per share which means that banks dividend growth is a function of its share price traded in the stock market.

Table 4.2.3 Trend of Earnings per Share of the Study Banks

	2000	2001	2001	2003	2004	2005	2006	Total	Average
ACCB	0.15	0.06	0.11	0.21	0.19	0.09	0.29	1.10	0.157
FB	2.87	4.02	2.14	3.48	3.04	2.61	1.83	20.09	2.859
WB	0.29	0.93	0.95	0.58	0.21	0.10	0.10	3.16	0.451
UB	3.08	4.14	3.21	2.37	1.56	1.61	1.05	9.91	2.481
UBA	2.57	0.75	1.00	1.37	1.56	1.61	1.05	9.91	1.416
GB	0.44	0.44	0.99	1.13	0.76	1.15	1.31	6.21	0.889
FB	0.09	1.28	0.26	0.00	0.00	0.35	0.35	2.33	0.333
AF	0.2	1.50	1.63	0.48	0.05	0.09	0.51	4.46	0.637
COB	0.18	0.27	0.07	0.11	0.10	0.10	0.10	0.93	0.133
CH	0.27	0.52	0.56	0.48	0.46	0.27	0.27	2.83	0.404

Source: Daily Official List, NSE, 2000-2007.

Table 4.2.4 Trend of inflation rate from 1995 – 2006 in percentage (%)

2000	2001	2002	2003	2004	2005	2006
6.9	18.9	12.9	14.0	15.0	16.8	-

Source: Federal Office of statistics, 2007

Table 4.2.4 above shows the trend of inflation under the period of study.

4.3 ANALYSIS OF QUESTIONNAIRE RESPONSES

In the course of this study, 300 questionnaires were administered to the organizations under study. Of this number, 30 each were administered to various banks respectively. The table below summarized the questionnaire administered and collected.

Table 4.3.1 Questionnaire administered and collected

Banks	Administered	Collected	Analyzed
Access Bank	30	25	24
First Bank	30	28	26
Wema Bank	30	30	28
Union Bank	30	27	26
UBA	30	26	25
Gtbank	30	28	28
FSB Int.	30	29	28

Afribank	30	26	25
Corp Bank	30	25	25
Chartered Bank	30	28	25
Total	300	272	260

Source: Questionnaire Administered 2007.

Table 4.3.1 shows the number of questionnaire administered, collected and analyzed. 300 questionnaires were administered, 270 was collected while 260 was correctly filled which was used for this empirical analysis. The questionnaires were administered to: Managers, shareholders and staff of the various banks.

Does your bank pay dividend?

Table 4.3.2 Payment of Dividend

Respondents	Responses							
	Yes	%	No	%	No. idea	%	Total	%
Managers								
Shareholders	90	100	-	-	-	-	90	100
Staff	40	38	50	48	15	14	105	100
Total	50	78	10	15	5	7	65	100
	180	69	60	23	25	8	260	100

Source: Questionnaire Administered 2007.

Table 4.3.2 above shows that 180 respondents representing 69% were of the opinion that their banks pay dividend. 60 or 23% of the respondents argue that their banks do not usually pay dividend. While 25 respondents representing 8% could not advanced any opinion.

Based on over opinion and observation, it seems that all the banks under consideration do pay dividend except probably in the lean time where payment of dividend could be doubtful.

Do you think that share price and inflation are factors that affect dividend growth pattern of your Bank?

Table 4.3.3 Factors affecting Dividend growth pattern

Respondents	Responses							
	Yes	%	No	%	No. idea	%	Total	%
Managers								
Shareholders	100	70	40	28	2	2	142	100
Staff	50	79	10	16	3	5	63	100
Total	30	55	20	36	5	9	55	100

	180	69	70	29	10	3	260	100
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Source: Questionnaire Administered 2007.

Table 4.3.3 revealed that 180 respondents representing 69% believe that share price and inflation are crucial factors that affect the dividend growth pattern of their banks. 70 or 29% of the respondents argue that market share price and inflation are not factors that influence the dividend growth pattern of their banks while 10 or 3% of the respondents remain indifferent. Share price and inflation are two faces of a coin that to a large extent influence the growth of any industry especially quoted companies. The degree of these two major factors on the dividend growth pattern of any bank can not be overemphasized.

Does your company ensure dividend growth at the expense of viable investment opportunities?

Table 4.3.4 ensuring Dividend Growth at the Expense of viable investment.

Respondents	Responses
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	Yes	%	No	%	No. idea	%	Total	%
Managers	102	70	40	28	3	2	145	100
Shareholders	50	69	20	28	2	3	72	100
Staff	28	65	12	28	3	7	43	100
Total	180	69	72	28	8	3	260	100

Source: Questionnaire Administered 2007.

Table 4.3.4 above indicates that 180 or 60% of the respondents ensure dividend growth at the expenses of viable investment opportunities. 72 or 28% of the respondents share contrary view while 8 or 3% of the respondents has nothing to say.

The above analysis suggest that even in the face of viable investment opportunities, dividend growth still remain one of the cardinal objective of the respective banks. This was appreciated from the responses presented above, even though wealth maximization remains central objective of the banks.

Does your organization have a definite pattern of dividend growth?

Table 4.3.5 Definite pattern of Dividend Growth

Respondents	Responses							
	Yes	%	No	%	No. idea	%	Total	%
Managers								
Shareholders	50	40	70	56	5	4	125	100
Staff	20	25	50	62.5	10	12.5	80	100
Total	10	18	40	73	5	9	55	100
	80	31	160	62	20	7	260	100

Source: Questionnaire Administered 2007.

Table 4.3.5 above indicates that 80 respondents representing 31% argue that dividend growth pattern of their banks follow a definite pattern. 160 respondents representing 62% argue that its does not follow any definite pattern while 20 respondents representing 7% has nothing to say.

Does dividend payout are been impaired in the quest of ensuring dividend growths.

Table 4.3.6 Dividend payout impairment

Respondents	Responses							
	Yes	%	No	%	No. idea	%	Total	%
Managers								

Shareholders	80	64	40	32	5	4	125	100
Staff	40	61	20	30	6	9	66	100
Total	35	51	30	43	4	6	69	100
	155	60	90	35	15	5	260	100

Source: Questionnaire Administered 2007.

Table 4.5.6 above provides that 155 respondents representing 61% believe that dividend payout was distorted in the course of ensuring dividend growth. 90 respondents representing 35% argue that dividend growth does not affect their dividend payout while 15 or 5% of the respondents remain indifferent.

The above analysis shows that it used to prove difficult for any organization to achieve two objectives at the same time of course, to ensure dividend growth, dividend payment has to be scaled down.

Do you think new issues have in anyway been influencing dividend growth pattern?

Table 4.3.7 Effect of new issues on Dividend Growth

Respondents	Responses							
	Yes	%	No	%	No. idea	%	Total	%
Managers	70	64	38	35	2	1	110	100
Shareholders	40	53	30	40	5	7	75	100
Staff	40	53	30	40	5	7	75	100
Total	150	58	98	38	12	4	260	100

Source: Questionnaire Administered 2007.

Table 4.3.7 above reveals that 150 respondents representing 58% were of the opinion that new issues have influence on the dividend growth pattern. 98 or 38% of the respondents argue that it has no influence on the dividend growth pattern, while 12 respondents representing 4% could not advance any argument.

The above analysis suggests that new shares in the stock market to a great extent have effects on the nature and structures of dividend growth pattern of the study banks.

Does your corporate social responsibility have impact of dividend growth pattern of your bank?

Table 4.3.8 Effect of corporate social Responsibility on Dividend Growth pattern

Respondents	Responses							
	Yes	%	No	%	No. idea	%	Total	%
Managers	70	67	30	29	5	4	105	100
Shareholders	30	38	40	50	10	12	80	100
Staff	50	67	20	27	5	6	75	100
Total	150	58	90	35	20	7	260	100

Source: Questionnaire Administered 2007.

Table 4.3.8 above shows that 150 respondents representing 58% were of the opinion that corporate social responsibility has impact on the dividend growth pattern of their banks. 90 or 35% respondents maintain that corporate social responsibility has no impact while 20 or 7% respondents have nothing to say.

Corporate social responsibility is an exercise that any organization who embark on it would in the long run has positive impact on the firms' value. This was noted from great number of responses that was in favours of the question.

Do you think that financial reporting contents have effect on dividend growth pattern?

Respondents	Responses							
	Yes	%	No	%	No. idea	%	Total	%
Managers								
Shareholders	80	80	20	20	-	-	100	100
Staff	30	34	50	57	8	9	88	100
Total	40	56	30	42	2	2	72	100
	150	58	100	38	10	4	260	100

Source: Questionnaire Administered 2007.

Table 4.3.9 above reveals that 150 respondents representing 58% were of the opinion that the confect of financial reporting impact to a large extent on the dividend growth pattern of their banks. 100 or 38% of the respondents do no belief that financial reporting contents has any effect on the dividend growth pattern, while 10 respondents representing 4% could not have any thing to say.

A good financial report serves as a communicator to the outside world. A situation where by such report was not distorted, the tendency of it to promote the company's mage

cannot be estimated and thus, enhance the dividend growth pattern.

Do you think that taxation has any effect on dividend growth pattern of your banks?

Table 4.3.10 Taxation & Dividend Growth pattern

Respondents	Responses							
	Yes	%	No	%	No. idea	%	Total	%
Managers	20	18	90	82	-	-	110	100
Shareholders	70	76	20	22	2	2	92	100
Staff	30	52	26	45	2	3	58	100
Total	120	46	136	52	4	2	260	100

Source: Questionnaire Administered 2007.

Table 4.3.10 above indicates that 120 respondents representing 46% argues that fare do affect the dividend growth pattern. 136 respondents representing 52% do not belief that tax affect dividend growth pattern, while 4respondents representing 2% remains indifferent.

Tax is a compulsory levy that all companies operating within the share of Nigeria must pay. This suggests that ever

individuals are under obligation to pay tax. Such tax is aided by tax law at different. Except in the case of over or under taxation if it occurs, we don't think that it should have any negative effect on the dividend growth pattern of the bank under consideration.

4.4 THE DETERMINANT OF DIVIDEND GROWTH PATTERN IN NIGERIA

Empirical investigation tell us that Net Profit after Tax (NPAT), working capital and Insider shares in equity affect the firm's decision regarding dividend growth pattern. Brittain (1966) verified a positive relationship between dividend and Net profits after Tax. Similarly, econometric techniques, do not only help us in selecting the most significant explicative factors hat influence dividend growth pattern, they also determine numerically how each factor is actually contributing in explaining the behaiour of economic indicators that affect dividend growth pattern. For instance, for some sectors income tax and statutory reserves are predetermined

especially the banking sector that is strictly under the surveillance of the Central Bank of Nigeria. The more depend of legal and constitutional structure of Nigeria than the economic behaviour.

It is also observed that a high percentage of shares held by management (Board of Directors) lead the high dividend payout. This also forms an explanatory variable. In a related development, insider ownership has been assumed to be an exogenous factor. According to Jensen, et al, (1992), insider ownership choices are endogenous outcomes of value-maximizing behaviour. However, we looked at it in this study to an exogenous variable.

The factors that influence the dividend growth of Nigeria Money Deposit Banks include:

Dividend and Liquidity

A negative relationship between dividend and liquidity of a firm has been observed. If a firm has a good dividend and liquidity position, it does not mean that it will pay higher dividend or there could be growth in the dividend rate. But it basically indicated the importance of dividend in

determination of working capital. A positive working capital on the closing date of balance sheet indicates that firm does care for financial health and its indicators. If a firm is maintaining good liquidity position, there will be a few chances of dividend payment not talk of dividend growth.

Dividend and Profitability relationship

Linter's (1956) famous investigation of dividend policy stress the firms only increase dividends when management believes that earnings have permanently increased. A bit later, Miller and Modigliani (1961) explicitly suggested that dividends can convey information about future cash flows when markets are incomplete. Indeed, as demonstrated by Miller and Rock (1985), though the sources and uses of funds identify the dividend decisions could reveal information about current earnings to the market. This study investigated the behaviour and pattern of dividend growth in selected banks in Nigeria and it is concluded that less than 23% additional profit is only transformed into dividend. The remaining profits are utilized for additional investment. The higher retention shows

that the banks adopt a self-financing way for growth and expansion. However, this seems to the cost of minorities' interest.

Insider's ownership

It was observed in this study that shares are held by the board lead to high dividends or low retention. The coefficient attached with the insiders' share is clearly showing that the magnitude of shares held by the directors has a direct relation with the amount of dividend. It is concluded that if a company has a large concentrated ownership then chances of dividend would be higher, because by such a manner dividend will go into the pockets of the directors. The chances of dividend payment will be low, if a significant large amount is paid as a dividend to the outsiders. In this case directors will compensate themselves through the executive compensatory benefits. The directors compare that how can they maximize their earnings, either through dividend or through the executive salaries.

Re-capitalization and dividend policy

The volume of equity financing can be changed by two different ways: Retained earnings and addition in the share capital. As regards, retained earnings, it has an accounting relation with dividend. Retained earnings will directly decrease the amount of dividend. But, the decision of dividend depends also on the addition in paid up capital.

The term re-capitalization is being applied here, in limited meanings. By recapitalization, we mean the addition in paid up capital. If the addition is through bonus issue, the dividend should be reduced. But, in this analysis, dividend and bonus shares are classified as complements, they are not substitutes. A positive sign with the bonus shows that at the time of expansion, companies pay dividend. This indicates that payment of dividend is important for growing companies like the banks under study. These results prove that companies pay dividend after a certain level of growth. At early stage of growth companies concentrate on retained earnings, then they are expanded through bonus and start to pay the dividend.

4.5 TEST OF HYPOTHESIS

Test of Hypothesis I

Ho: There is no significant relationship between the share prices and earnings per share of Nigerian Deposit Money Banks and their dividend growth patterns.

Hi: There is no significant relationship between the share prices and earnings per share of Nigerian Deposit Money Banks and their dividend growth patterns.

x	$x-\bar{x}$	$(x-\bar{x})^2$
2.95	-6.95	48.3025
25.75	16.64	276.8896
3.68	-5.43	29.4849
24.09	14.98	224.4004
11.09	1.98	3.9204
3.49	5.62	31.5844
7.56	-1.55	2.4025
7.56	-1.55	2.4025
1.07	-8.04	64.6416
3.84	-5.29	27.7729

91.04		714.8017
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$$\bar{x} = \frac{91.04}{10} = 9.11$$

$$= \sqrt{\frac{\sum(X - \bar{X})^2}{n-1}} = \sqrt{\frac{714.8017}{10-1}} = \sqrt{\frac{714.8017}{9}} = \sqrt{79.422} = 8.91$$

x	x- \bar{x}	(x- \bar{x}) ²
0.112	-0.2664	0.5161
1.443	1.0646	1.0318
0.179	-0.1994	0.4465
0.377	-0.0014	0.0374
0.593	0.2146	0.4632
0.312	-0.0664	0.2577
0.143	-0.2354	0.4852
0.251	-0.1274	0.3569
0.124	-0.2544	0.5044
0.250	-0.1284	0.3583
3.784		4.4576

$$\bar{x} = \frac{3.784}{10} = 0.3784$$

$$= \sqrt{\frac{\sum(X - \bar{X})^2}{n-1}} = \sqrt{\frac{4.4576}{10-1}} = \sqrt{\frac{4.4576}{9}} = \sqrt{0.4953} = 0.7038$$

$$Z = \frac{\mu - \bar{x}}{\sqrt{\frac{\delta_{\mu} + x_{\mu}}{n}}} = \frac{8.91 - 0.3784}{\sqrt{\frac{8.91 + 0.7038}{10}}} = \frac{8.5316}{0.9805} = 8.7013$$

The hypothesis was tested at 5% significant that with degree of freedom of 2.

DECISION

Since the calculate t- test of 8.7013 > table values of 4.303, the alternate hypothesis was accepted which state what share price is a determinant factor of the dividend growth of Money Deposit Banks while the alternate was rejected.

Test of Hypothesis II

H₀: There is no significant relationship between inflation and dividend growth pattern of Nigeria money Deposit Banks.

H_i: There is significant relationship between inflation and dividend growth pattern of Nigeria money Deposit Bank.

Computation of person correlation co-efficient

X	y	x ²	y ²	xy
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6.9	0.0416	47.61	0.0017	0.28704
18.9	0.053	357.21	0.0028	1.0017
12.9	0.0477	166.41	0.0023	0.6153
14.0	0.0446	196	0.0020	0.6244
15.0	0.0430	225	0.0018	0.6450
16.8	0.1421	282.24	0.0018	0.7073
15.9	0.0426	243.36	0.0018	0.6773
100.4	0.3146	1199.5	0.0142	4.55804

$$r = \frac{7(4.55804) - (100.4 \times 0.3146)}{\sqrt{7(1199.5) - (100.4)^2} \sqrt{7(0.0142) - (0.3146)^2}}$$

$$r = \frac{31.90628 - 31.58584}{\sqrt{8396.5 - 10080.16} \sqrt{0.0994 - 0.09897}}$$

$$r = \frac{0.32044}{\sqrt{-1683.66} \sqrt{0.00043}}$$

$$r = \frac{0.32044}{\phantom{\sqrt{-1683.66} \sqrt{0.00043}}}$$

$$41.032 \times 0.02074$$

$$r = \frac{0.32044}{0.85100} = 0.3765$$

DECISION

Since the calculate correlation is positive, which shows a strong relation between dividend growth and inflation rate, the alternate hypothesis was accepted which state There is significant relationship between inflation and dividend growth pattern of Nigeria money Deposit Bank while the alternate was rejected.

4.6 DISCUSSION OF RESEARCH FINDINGS

The study revealed that the dividend growth pattern of Nigeria Deposit Money Bank is a function of many factors i.e. both internal and external variables has influence on the dividend growth pattern of Nigeria deposits money Bank. Of the internal factors as revealed by study include the market share price, earnings per shares, insider ownership, dividend and profit relationship, liquidity and dividend relationship as well as re-capitalization. This was confirmed following the acceptance of the alternate hypothesis as tested above. This

implies that the dividend growth pattern of Nigeria Deposit Money Banks to a large extent would be determined by these internal factors. The student t-test result brought a consideration about those internal factors which firms have to look into critically considering her dividend growth pattern.

Similar situation was equally arrived at in the second hypothesis tested via Pearson correlation coefficient, which led to the acceptance of alternative hypothesis. The result here shows that macro-economic variable factor such as inflation affects the dividend growth pattern of Nigeria Deposit Money Banks. This position was established as high positive correlation exists between dividend and inflation as observed in this study.

Finally, the responses analyzed in this study affirmed that dividend growth pattern of Nigeria deposit Money Banks is a function of interwoven factors. Both internal and external variables play crucial role.

On the whole, dividend growth pattern of Nigeria Deposit Money Banks could be associated with different factors. Such factors as revealed by this study include share price, earning

per share and inflation as well as the environment in which the firm operate.

CHAPTER FIVE

SUMMARY, CONCLUSION, RECOMMENDATIONS

5.1 SUMMARY

From the reputation's point of view, the payment of dividend is not less important than interest payment, at due time. The risk and the rate of return are the only difference between these two types of finances. The payment of dividend is considered extremely important, in some in economics. The firms are even forced to pay dividend through external finances. In Nigeria, however, the dividend growth pattern of Nigeria Money Deposit Banks are low as compared to other developed economy and it is though that payments dividend is directly concerned with the availability of surplus funds after payments of the expenditures and financing for the additional investment in the company. It is observed that banks decide their dividend payments on the basis of their net profits after tax and external finances.

As earlier mentioned, dividend is the return an investor usually expected from his investment. The rate and pattern at

which it grows could be a source of concern to such shareholders.

In an attempt to investigate the dividend growth pattern of Nigeria Money Deposit Banks, ten (10) listed in the Nigeria Stock Exchange were selected for a period of six (6) years which the research believed to have sufficient data required for the study. Student t-test and Pearson correlation coefficient techniques has been applied in the study. The model has been estimated through the pooled data of annual audited accounts of 10 banks listed on the Nigeria Stock Exchange and Nigeria Stock Exchange daily official list. It there means that the data for this study has been obtained from a variety of sources, depending upon the definitions and the nature of the variables. A large data on different variables have been extracted from the daily official list. However, questionnaires administered were empirically analyzed.

This study is divided into five chapters. In chapter one, we introduced the topic. Other issues discussed include problem of the study, objective of the study, research hypothesis, significant and scope of the study.

Chapter two reviewed the relevant and related literatures to this study. The main trust of items discussed here include concept of dividend, pattern of dividend growth, theoretical framework. Others are factors that influence dividend growth.

Chapter three which is the research methodology bring to focus the research design applied in this study, population and sample selection techniques, data collection techniques, data analysis technique as well as source of data collection.

In chapter four, we present analyze our data collected via our data collection instruments. Responses from questionnaire administered were equally presented in this chapter. Test of hypothesis and discussion of research findings were not left out either in this chapter.

5.2 LIMITATION OF THE STUDY

This study like any other study faces some limiting factors the limit the scope and depth of this research. Among such factors include the data related to this issues which exist scantily, the reliability of the available sources remain doubtful. The lack of finances and adequate time also posses a constraint on effective coverage as this research is being

combined with regular academic activities. The low level of literacy of some of the respondents is also do not encourage this research

5.3 CONCLUSION

The dividend policy decision has been a subject of discussion in different for decades. Interestingly, none of this discussion has indicated the factors that determine the pattern of dividend growth in the Nigeria Deposit Money Banks. It is within this framework that the researcher advances the discussion on dividend policy to include the determinant factors that influence or affect the growth pattern of dividend of Nigeria Deposit Money Bank.

Shareholders (customers) and potential investors are motivated only if they are sure that the maximization of their wealth is guarantee. Although, corporate objectives may be differ from the shareholders objective, but the ability to marry the interest of shareholders in the optimization of corporate objective becomes paramount.

The degree at which management map out strategies to showcase the interest of shareholders as regards the growth in

their return cannot be over emphasized. The business environment in which a firm operates which include the internal and external factors posses more tussled for consideration.

For consistent growth on dividend, an industry has to ensure a sustainable growth in dividend payment. There should be a continual payment marry with profitable investment that bank's reserve could be channeled, which could enhance growth.

Existing within the operational guidelines, one could be encouraged and appreciated the banks under study as they demonstrated high level of consistency in their dividend growth pattern. All the banks not withstanding the harsh economic environment in which they operate, there seems to be an appreciable input in their dividend growth pattern. The entire variable under consideration: share price, earnings per share and inflation which is one of the global phenomenon that treat the economy may have positively or negatively influence the dividend growth pattern of the firms.

The study finally concluded that insider ownership, liquidity and dividend, profitability and dividend as well as re-capitalization play significant role among the factors that determined the dividend growth pattern in the Nigeria Money Deposit Banks.

5.4 RECOMMENDATIONS

In view of the findings of this research, the following suggestions of recommendations are here forth advance.

- i. The organizations under consideration should ensure persistent and sustainable growth in their dividend payment to the shareholders.
- ii. There should be a policy to ensure the growth of dividend of their firm without necessary affect the optimization of business wealth.
- iii. Government should ensure hitch free environment for the organization to operate that will encourage them more disposed to dividend growth of their firm.

- iv. The banks under consideration should ensure that they brought all the internal and external variables that affect their dividend growth pattern to under control if not eliminated completely.
- v. The degree of endogenous and exogenous variable should be minimized to ensure its influence on the dividend growth pattern of Nigeria Deposit Money Banks.

5.5 SUGGESTION FOR FURTHER RESEARCH

Dividend policy determination has been an issue discussed at different fora. As much as this study was able to established findings in regards to dividend growth pattern by Nigeria Deposit Money Banks, studies could be conducted on other areas such as:

Dividend policy and corporate governance: the implication for efficiency gain.

Impact of the dividend growth on the profit maximization of firms' objective.

Variability of insider ownership on dividend growth.

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APPENDIX
QUESTIONNAIRE

1. Does your bank pay dividend?

Yes [] No. [] No Idea []

2. Do you think that share price and inflation are factors that affect dividend growth pattern of your Bank?

Yes [] No. [] No Idea []

3. Does your company ensure dividend growth at the expenses of viable investment opportunities?

Yes [] No. [] No Idea []

4. Does your organization have a definite pattern of dividend growth? Yes [] No. [] No Idea []

5. Does dividend payout are been impaired in the quest of ensuring dividend growths.

Yes [] No. [] No Idea []

6. Do you think new issues have in anyway been influencing dividend growth pattern?

Yes [] No. [] No Idea []

7. Does your corporate social responsibility have impact of dividend growth pattern of your bank?

Yes [] No. [] No Idea []

8. Do you think that financial reporting contents have effect on dividend growth pattern?

Yes [] No. [] No Idea []

9. Do you think that taxation has any effect on dividend growth pattern of your banks?

Yes [] No. [] No Idea []