

THE EFFECT OF DIVIDEND POLICY ON VALUE OF BANKS IN NIGERIA

Onyeiwu Charles & Obi Stanley Ikenna

Research Scholar, University of Lagos, Nigeria

ABSTRACT

This study investigated the effect dividend policy has on the value of banks in Nigeria. The investigation entailed examining the books of six publicly quoted banks in Nigeria for a period of ten years covering 2008 to 2017. A panel regression was conducted and the finding revealed that dividend policy represented as dividend per share has a positive and significant impact on the value of bank represented by market price per share but earning per share and dividend yield have a significant but negative effect on share price. It is therefore recommended that banks should consider dividend policy as very crucial to their continuous survival and they should strive to improve on their earnings. Though earning per share indicated a negative relationship with market price in this study yet dividend may be difficult if not impossible to pay where there is no earning

KEYWORDS: *Dividend Policy, Earnings, Dividend Payment, Yield, Market, Price*

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INTRODUCTION

Banks are very important agents of economic transformation of an economy as they play critical role in the saving-investment process through improving the opportunity to save. Banks mobilize scarce funds from the surplus units and channel it to the deficit units and catalyze economic growth by multiplying the mobilized funds through their credit creation process. The continuous viability of a bank is very important because its stock in trade is an economies means of payment. Preserving the banking system is tantamount to protecting the payment system. Therefore, government, investors as well as depositor are interested in the survival and continuous prosperity of the bank. The interest of the investor or shareholder is as a result of his capital investment in the bank. The shareholder of a bank is very important because he is the entrepreneur who risks his capital to establish the bank and his capital is not only necessary to meet the regulatory requirement but is also expected to be adequate to absorb losses from bad loans. The shareholder is therefore a major stakeholder in the bank and should be encouraged to keep his investment in the bank through adequate return on investment, attractive dividend payment and most importantly the appreciation of his investment through enhancement of the value of investment. The objective of a business should be to maximize shareholders wealth and this is reflected in the appreciation of the market price of stocks. So shareholder should be interested in the performance of the stocks in the bank. The Nigerian experience with bank failures is quite known. From the commencement of banking operation around 1892 up to 1951 was known as free banking era and was characterized by massive failure of indigenous banks and the dominance of expatriate banks. The establishment of the Central Bank of Nigeria in 1959 and the promulgation of the CBN Act of

1969 brought sanity to the banking system. Again, from 1986 when the Structural Adjustment Program (SAP) was introduced in Nigeria to the banking reform of 2005 when Central Bank of Nigeria introduced major financial reforms including recapitalization of the banks, there was different spades of banking sector distress and bank failures. It is therefore trite that investors in the banking sector are alive to their responsibility and be ready to protect their investment, ensure the stability and growth of such investment. It is known that consistent improvement in the price of bank stock is an indication of good performance by management and an investor who notices decline in the value of his stock should be alert and if the trend continues should be ready to divest to save his scarce resources.

Since inadequate capitalization is considered one of the factors that affect bank distress, constant improvement in market price of stock would attract more capital to the bank and therefore government and shareholders alike should be interested in the factors that influence the share price of banks in Nigeria. This study therefore is aimed at examining the main determinants of market value of Nigerian banks.

LITERATURE REVIEW

CONCEPTUAL REVIEW

The market value of bank is very important because it represents the wealth of shareholders and anything that increases the market value as represented by the price per share is very important to investors as it would help them grow their wealth. Incorporate finance, it is agreed that good management and investment that offers positive net present value would positively impact firm value but the debate on the effect of dividend payment and corporate earnings on company value is still not conclusive. In financial literature, it is believed that the effect dividend payment would have on share value would depend on who constitute majority shareholders. If they are majorly the 'senior citizens', then they are likely to demand current income and dividend payment would be very important to them and not paying dividend may force investors to sell shares to raise cash and this may negatively impact share price and company value. However, if majority of the investors are the young and upwardly mobile, then investors would prefer deferment of current dividend and prefer capital gain which would arise from reinvesting the retained earnings on positive net present value projects. In the case of earnings, it is rational to believe that improved earnings should have positive impact on firm value as more earnings make more money available for both dividend payment and retention for further investment on viable projects. Therefore, this study aims at ascertaining the actual impact dividend payment and corporate earnings have on company's value. As a result, the model of this study has been formulated in such a way that the market value of bank share represented by market price of share is a dependent variable while dividend payment represented by dividend per share and earnings represented by earnings per share constitute the independent variable as specified in the methodology.

THEORETICAL REVIEW

There are two opposing schools of thoughts on dividend theories: those who propose that dividend is relevant and those who argue that dividend is not relevant. Such theories include Walter's model, Gordon's model and M & M model.

WALTER'S MODEL

Walter (1956) proposition is that the dividend is very important in the determination of the market value of stock and this notion is reflected in his valuation model where he made the price of share to be a function of dividend payment and the capital gain.

Walter (1956) is one of the proponents of dividend relevancy theory. He explained that firms have life cycle of boom and boost and the decision to pay dividend depends on the firm's growth stage. He delineated firms into three namely; growth firms, normal firms and declining firms and each of these firms would choose different dividend policies as their choice of dividend policy would affect the value of the firm. Take for instance growth company referring to a firm whose internal rate of return exceeds the cost of capital, it would choose to defer dividend payment as that would put the firm in a position to acquire more investments with positive net present value which would enhance the value of shares. On the other if the firm is a declining firm meaning firm whose internal rate of return is less than the cost of capital more dividends would be advisable as shareholders may be in a position to use their cash more profitably than the firm.

$$P = \frac{DIV + (r/k)(EPS - DIV)}{k} \dots\dots\dots (1)$$

K

Where, P = market price of share

DIV = Dividend per share

EPS = earnings per share

R = internal rate of return

K = firm's cost of capital

GORDON'S MODEL

Gordon (1959) position is that dividend payment is one of the important variables affecting the value of the firm. For him the market value of a share is the sum of the discounted indefinite dividend streams. However, he made reinvestment assumption of the retained earnings which would result in growth (g) of both income and dividend. This resulted to a model (2) of share price determination.

$$P_0 = \frac{EPS_1(1-b)}{K-br} \dots\dots\dots (2)$$

K-br

Where, P₀= Present Market Price

EPS= earnings per share in year 1

B = Retained earnings or retention ratio

K = Cost of Capital for the Firm assumed to be all-equity financed.

R = Firm's internal rate of return

MODIGLIANI AND MILLER THEORY

Modigliani and Miller (1961), on the contrary are of the view that with the assumption of perfect market, dividend policy is irrelevant to the current market price of share. Dividend payment is like moving around one's asset and that does not diminish the value of the asset. They explain that having a firm's share confers ownership of company's assets to the shareholder. Not paying dividend does not make the shareholder poorer because he could easily sell part of his shares in the capital market to acquire another form of asset in the form of cash. If the company pays dividend by selling new shares

in the market, he losses a portion of his assets in the company to the new investors but he has equivalent asset in his pocket in form of cash. In either way he is not disadvantaged and the firm value would not change. Again Modigliani and Miller demonstrated through a mathematical model that though the model (3) below reflects that current price (P_0) is a function of dividend (D_1) one year hence and future price (P_1), it could be transformed into model (5) where the current price was in no way influenced by dividend.

$$P_0 = \frac{D_1 + P_1}{1 + K} \dots\dots\dots (3)$$

$$V = nP_0 = \frac{n(D_1 + P_1)}{(1 + k)} \dots\dots\dots (4)$$

$$V = nP_0 = \frac{(n + m)P_1 - I_1 + X_1}{(1 + K)} \dots\dots\dots(5)$$

Where, P_0 = Current price share

V = Value of the firm

K = Capitalization rate for firm in that risk class.

D_1 = Dividend per share in period 1

P_1 = Market price per share at period 1

N = Number of shares outstanding

I = Amount of investment

X = Net profit

EMPIRICAL REVIEW

This study has examined various studies across nations to determine the effect of dividend policy on the value of the firms and there is preponderant evident that dividend policy has positive impact on stock price. Such studies include that conducted by Noor etal (2017) in Pakistan covering a period between 2006 and 2015 and others are Adam etal conducted in Sweden between 2007 and 2017, Akran (2017) conducted at Istanbul between 2007 and 2015, Geetha etal (2017) conducted in India between 2004 and 2013, Sorin (2016) in Romania between 2001 and 2011 and Ozuomba (2017) conducted in Nigeria between 1995 and 2015.

However, there are few researchers who found that dividend policy has negative impact on firm value such as Brahmaiah etal (2017) conducted in India and Kehinde etal (2017) conducted in Nigeria.

Some other studies maintain that dividend policy follow unstable pattern and so it would be difficult to determine the impact of dividend policy on firm value. Such study include that of Waseem etal (2011) conducted in Amman banking sector and that of Abdulkadir (2014) in Kenya for the period between 2002 and 2010.

However most of these studies have followed the long held believe in finance that pay-out ratio and retention ratio represent dividend policy and could be used to predict the impact of dividend policy on share price of shares. But this study

prefers to use dividend payment represented by dividend per share as what affects the demand for stocks directly and more potent in affecting stock price. This is because dividend policy is company policy implemented by management and has no direct interaction with the market where prices are determined but the decision of the shareholder who is dissatisfied with dividend received impacts the market directly.

METHODOLOGY

The study considered Six (6) banks for the period of 10 years from 2008 to 2017; this is because it is the annual report and daily official list that are readily available for present assessment.

The method of data collection employed is basically from secondary source which was collected from documents in which the data have been processed, that is, from financial statements and daily official list of the selected companies for the relevant years under review. In line with the methodological sequencing comprising of research design, population and sample size, data collection, model specification, variables description and estimation technique, this segment focuses on the empirical analysis and discussion of the model established earlier. The estimation process involves the descriptive statistics, the correlation coefficient for test of multicollinearity, panel data regression involving hausman decision test and a robust test for endogeneity with the use of panel dynamic estimation of generalized moments (GMM) method. These techniques were employed in evaluating the impact of dividends policy on firms’ value in Nigeria. Econometric analytical process has been utilized to evaluate the relationship between firms’ value as the endogenous variable and the exogenous variables of dividend policy comprising of dividend per share, earnings per share and dividend yield.

MODEL SPECIFICATION

The model adopted in this study is based on correlation coefficient for test of multicollinearity, panel data regression involving fixed effect, random effect, hausman decision test and a robust test for endogeneity with the use of panel dynamic estimation of generalized moments (GMM) method in order to establish the relationships among the variables of dividend policy and firm’s value in Nigeria.

The proxy for firm’s value which is the dependent variable in this study is the market price per share (MPS), while dividend per share (DPS), earnings per share (EPS) and dividend yield (DY) are the independent variables. Market price per share was selected as study dependent variable based on the premise that it is a strong determinant of the market value of a firm’s share.

The various independent variables used in the model also determine and dictate how the shareholder perceives the value of the share.

The study adapted the model in the research carried out by Kehinde, Uwalomwa, Olubukola, Osariemen and Sylvester (2017).

Thus, the model is captured in a schematic form as follows:

$$\begin{aligned}
 Y &= f(x_1, x_2, x_3, x_4) \dots\dots\dots 1 \\
 MPS &= f(DPS, EPS, DY) \dots\dots\dots 2 \\
 Y_{it} &= \beta_0 + \beta_1DPS_{it} + \beta_2EPS_{it} + \beta_3DY_{it} + \epsilon_{it} \dots\dots\dots 3
 \end{aligned}$$

Where

MPS = Market Price Per Share

DPS = Dividend Per Share

EPS = Earnings Per Share

DY = Dividend Yield

$\beta_1, \beta_2, \beta_3$ = Parameters to be estimated

ϵ = Stochastic Error Term

ANALYSIS AND DISCUSSIONS OF RESULT

This section will further provide the empirical outcome necessary in realizing the objectives stated earlier in the course of this study. Both descriptive and econometric analysis was conducted accordingly. The descriptive deals with statistical properties of the variables while the econometric analysis focuses on the validation of the hypothesis using inferential statistical measures.

DESCRIPTIVE ANALYSIS**Table 1: Summary Statistics**

	DPS	EPS	DY
Mean	0.590667	0.850333	0.062667
Median	0.475000	1.255000	0.060000
Maximum	2.700000	8.740000	0.170000
Minimum	0.000000	-21.18000	0.000000
Std. Dev.	0.585207	3.835294	0.046755
Skewness	1.299708	-3.832672	0.073763
Kurtosis	4.687061	21.92083	2.009157
Jarque-Bera	24.00786	1041.888	2.508835
Probability	0.000006	0.000000	0.285242
Sum	35.44000	51.02000	3.760000
Sum Sq. Dev.	20.20557	867.8592	0.128973
Observations	60	60	60

Source: Author's computation with E-views version 10, 2019

The summary statistics for the study in (table 1) shows the average score of dividend per share (DPS), earnings per share (EPS), and dividend yield (DY) as 0.591, 0.850 and 0.062 with earnings per share exhibiting the highest average growth. This further affirmed by their median and maximum scores of 0.475, 1.26, 0.060 and 2.70, 8.740 and 0.170 for the DPS, EPS and DY respectively. The standard deviation of 0.585, 3.835 and 0.047 indicates the highest variability is associated with earning per share. The skewness values 1.300, -3.833 and 0.074 indicate that the variables with the exception of earnings per share were negatively skewed with relatively low and negative values. The kurtosis values of 4.687, 21.921 and 2.009 were individually associated with DPS, EPD and DY. Thus, all the variables except dividend yield revealed kurtosis value above 3.0 which indicates mostly high deviations among the data set. This was also supported by the Jarque-Bera normal distribution values 24.008, 1041.888 and 2.507 with their respective probabilities as depicted in table 1.

Table 2: Correlation Coefficient

Variables	DPS	EPS	DY
DPS	1.000000	0.162052	0.602670
EPS	0.162052	1.000000	-0.088637
DY	0.602670	-0.088637	1.000000

Source: Author's computation with E-views version 10, 2019

The result of the correlation matrix in table 2 above shows the highest correlation coefficient of 0.603 between dividend per share and dividends yield against the bench mark of 0.8 which is assumed to be a high level of inter-correlation among the independent variables. A correlation coefficient of 0.162 was found between DPS and EPS while an inverse coefficient -0.087 is observable between DY and EPS. Hence, it can be concluded there exist no significant evidence of multicollinearity among the model exogenous variables.

ECONOMETRIC ANALYSIS

This section deals with empirical aspect of the data analysis and discussion of the panel regression result emanating from the estimated study model as specified in the previous section.

Fixed Effect Estimates

Table 3: Dependent Variable: MPS

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	7.970136	0.454047	17.55356	0.0000
DPS	10.54997	1.022416	10.31866	0.0000
EPS	-0.133745	0.065198	-2.051378	0.0454
DY	-74.21682	8.286078	-8.956810	0.0000
Weighted Statistics				
R-squared	0.855229			
Adjusted R-squared	0.832520			
F-statistic	37.66015	Durbin-Watson stat		1.969316
Prob (F-statistic)	0.000000			

Source: Author's computation with E-views version 10, 2019

The fixed effect result in table 3 revealed R-squared of 0.8552 which implies that 85.52 percent of the total variations in bank's market price per was accountable by the changes in the independent variables. The adjusted R-squared result (0.8325) which is sensitive to marginal variables of the model shows that 83.25 percent of the changes in market price per share were due to the fluctuations in the independent variables of the model. The F-statistic (37.66; P-value < 0.01) signifies the model global significance at 1 percent level while the evidence from the Durbin Watson statistic (1.96) revealed the absence of serial correlation in the model estimates.

Hausman Test

Table 4: Correlated Random Effects-Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.	
Cross-section random	5.412350	3	0.1440	
Cross-Section Random Effects Test Comparisons				
Variable	Fixed	Random	Var(Diff.)	Prob.
DPS	9.957944	11.646362	0.780887	0.0560
EPS	-0.128387	-0.101857	0.001180	0.4399
DY	-68.678624	-77.506262	25.596063	0.0810

Source: Author's computation with E-views version 10, 2019

Since this study involved a panel data analysis the fixed and random effect regression was carried out for the model estimation. The fixed effect regression estimates are consistent and assumes there exist a significant correlation between the parameter estimates and the idiosyncratic error terms of the model while the random effect estimates are efficient assuming non-systematic and significant error in model estimate. In order to determine between the fixed and random effect results the hausman test is conducted in Table 4. The hausman null hypothesis assumes the absence of any significance serial correlation between the model estimates and the idiosyncratic error terms while its alternative hypothesis assumes a significant systemic correlation. Hence a significant hausman test indicates the preference of a fixed effect regression estimates, otherwise an efficient random effect regression estimated is preferred.

Given the result of the hausman test in this study which appears to be insignificant, hence the random effect regression result is also interpreted and preferred for this study.

Random Effect Estimates

Table 5: Dependent Variable: MPS

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	7.501554	0.515450	14.55342	0.0000
DPS	11.64636	0.875392	13.30416	0.0000
EPS	-0.101857	0.063130	-1.613459	0.1123
DY	-77.50626	8.778486	-8.829115	0.0000
Weighted Statistics				
R-squared	0.828982			
Adjusted R-squared	0.819820			
F-statistic	90.48334		Durbin-Watson stat	1.749758
Prob(F-statistic)	0.000000			

Source: Author's computation with E-views version 10, 2019

The analysis of the random effect outcome in Table 5, R-squared of 0.8290 suggests that 82.9 percent of the total variations in market share are traceable to the change in the included explanatory variables in the model. The result of the adjusted R-squared (0.8198) shows that 81.98 percent of the variations in the phenomenon under investigation were jointly explained by DPS, EPS and DY. The F-statistics (90.48; p-value < 0.01) shows the model overall statistical significance at 1 percent level. The non-existence serial correlation was further established with Durbin Watson statistic at 1.75.

GENERALIZED MOMENTS RESULTS

Generalized Moments Coefficients

Table 6: Dependent Variable: MPS

Variable	Coefficient	Std. Error	T-Statistic	Prob.
C	7.589943	0.953226	7.962375	0.0000
DPS	13.77822	5.283320	2.607872	0.0136
EPS	-0.260995	0.125840	-2.074023	0.0460
DY	-100.4629	43.99609	-2.283451	0.0290
Weighted Statistics				
R-squared	0.785532	Mean dependent var		14.38580
Adjusted R-squared	0.733539	S.D. dependent var		11.01444
S.E. of regression	3.217034	Sum squared resid		341.5271
Durbin-Watson stat	2.088967	J-statistic		2.654852
Instrument rank	10	Prob(J-statistic)		0.103234

Source: Author's computation with E-views version 10, 2019.

The result established the nature of the statistical relations between market per share (MPS) as the dependent variable and dividends per share (DPS), earning per share (EPS) and Dividends yield (DY) as the independent variables.

The study also proceeded to employ the generalized moment's (GMM) estimation to account for the issue of endogeneity and enhance the robustness of the model estimates. The result of the GMM estimate is as presented in table 6, above the empirical evidence from the generalized moments' estimate revealed a significant relationship between DPD, EPS, DY and MPS. The R-squared (0.8755) indicates that 87.55 percent of the market price per share of the banks stocks were jointly explained by the changes in the explanatory variables while the adjusted R-squared provides evidence of 73.35 percent in that respect. The Durbin Watson result (2.08) suggests absence of serial correlation while the J-statistic (2.655; p-value = 0.103) justifies the model global significance as well as the adequacy of the instrumental variables.

Evidently from the fixed effect result dividend per share shows a significant and positive impact on banks market per share at 1 percent significant level. One unit increase in the banks dividend per share increases the share value of the banks by 10.55 units. This shows that increase in banks dividend per share will result in a corresponding increase in the market value of the shares. Hence, dividend per share could be regarded as a significant determinant of banks share value.

However, earnings per share and dividend yield indicate a retarded effect on market price per share of the banks. The detailed analysis of the result shows that despite the banks earning per share and dividend yield, there is a decline in the market value of share by 0.133 and 74.22 units.

The outcome of the regression coefficient of dividend per share in random effect regression revealed a significant positive relationship with market per share. Further analysis of the result shows that a unit rise in dividend per share significantly increased market price per share of the banks by 11.65 naira. This further aligns with the earlier result from the fixed effect estimates. Detailed analysis of the earning per share and dividend yield suggests an inverse relationship with the market value of the bank's shares. It could be observed that the performance of earnings per share and dividend yield revealed a significant decline in market price per share by 0.10 and 77.51. This result further confirmed the earlier result as presented in the fixed effect estimates.

As evidenced from the generalized moments result, the estimated coefficient of dividends per share indicates a significant direct relationship with stocks market values at percent significance level. Specifically, a unit increase in dividend per share improved the market price by 13.77 naira. This implies that the more investor receives dividends from their investment in banks stocks the more they are motivated to invest in such business which invariably increases the market price of the banks stock.

Conversely, it is obvious that earnings per share did not support the market value of the banks stock. It suggests no significant contribution to market price per share but rather inhibits it performance by 26 kobo per share. In the same vein dividend yield appears to have resulted to an average of 100 naira loss in market price among the sampled banks in this study. This result further supports the finding by Kehinde et al (2017) which shows that dividend yield and retention ratio exert a significant inverse effect on market price per share of Nigerian banks. It is observable that dividends yield policy of the banks had a more adverse effect on market value of stocks compared to earnings per share.

CONCLUSIONS AND RECOMMENDATIONS

Dividends per share had a significant positive impact on the market price of the common stock while earnings per share and dividend yield revealed a significant negative relationship with the market price of the common stock. The outcome of

this study further confirms the assertion in earlier studies (Ozuma and Ezeabasi, 2017; Simon-Oke and Ologunwa (2016) that have proven that dividend policy have a significant effect on the performance of Nigerian firms. This shows that dividend policy is a significant determinant of the market value of public limited companies in Nigeria.

On the contrary, the evidence from this study is at variance with the study by Egbeonu and Edori (2016) on quoted firms in the Nigerian stock exchange which affirmed that dividend per share exhibits a negative relationship with share price in the stock market. Conversely, Kehinde et al (2017) who conducted investigation on dividend policy and share price of banks in Nigeria discovered that earnings per share were significantly and positively related with market price per share. The differences in these studies outcomes could be explained by the differences in scope and methodological approach to the investigation of the phenomenon under study.

Based on the findings from the study, it's thus suggested that banks should consider dividend payment as crucial to its continuous survival and they have to strive to improve their earnings. Though earning per share indicated a negative relationship with market price in this study yet dividend may be difficult to be paid if not impossible where there are no earnings.

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