



SHAREHOLDERS' WEALTH MAXIMISATION AND DEPOSIT BANKS' PERFORMANCE IN NIGERIA

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Abstract: The study examines the effect of shareholders wealth maximization on the deposit money banks performance in Nigeria; that spanned from 1996 to 2020. Data from secondary sources were retrieved from the Statistical Bulletin of Nigeria's Central Bank, 2020. Shareholder's wealth maximization of deposit money banks' that are quoted in Nigeria Stock Exchange was used as a proxy for dividend and adopted as the response variable; while, earnings per shares, ratio of dividend payout, dividend yields and retention ratios, are use as explanatory variables to determine deposit money banks 'performances. The formulated hypotheses were tested by time series econometric techniques. The findings indicate that the payout ratio for dividends has an effect that is significant and positive on deposit money banks' market value in Nigeria. That ratio on retained earnings has a positive effect that is significant on Nigeria's deposit money banks' market value. The yield on Dividend shows a significantly positive effect on deposit money banks' market value in the country. There was also a positive and significant impact on deposit money banks market value by earnings per shares for Nigeria. The derived model's coefficient of determination shows that that about 62 per cent of shareholders' wealth maximization variations are due to variations in proxies of DMB's performance in Nigeria as adopted in this study (DPR, RR, DY, EPS). The conclusion from the findings of this study is that shareholder's wealth maximization impacts significantly on DMB's performance in Nigeria. Drawing from on the foregoing this research makes the following recommendation; that regulatory oversight functions of the country's regulatory authorities have to be enhanced in order to attain for the banking sector transparency, good business ethics and acceptable corporate governance. The result will be a reduction in fears of investors and frequent declaration of mind blowing profits that are at variance the real situation of the banks, eliminating insider trading, and the deliberate manipulation of the price of stocks.

KEYWORDS: Shareholders Wealth, Maximization, Deposit Money Banks Performance Nigeria

INTRODUCTION

A study carried out by Nnana and Chiwendu (2019) when responding to this issue, observed that managers ought to put into consideration; the specific dividend policy for implementation that will enhance effectively the wealth of the shareholders in any given firm. Hence, their focus need to be majorly on this question; on what proportion of a firm's realized income must be made available for investment. They have to also consider what effect this decision of theirs will have on price of the firm's stock. Dividend is also indirectly connected to the capital structure; hence a specifically applied dividend policy might lead to the initiation of further policies and that is the

core focus of the present study and it encompasses issues such as the establishing how the payout policy on dividend is managed to affect firm size as well as the way shareholders receive their cash distribution from dividend payments. The work of Malu and Audu (2019) stated that "there is a connection between investment, financing and dividend decisions and must be resolved simultaneously; thus combination of these policy decisions should theoretically maximize shareholders' wealth".

Thus, focusing on the valuation process, a study by Awudu (2019) "did show that the value of an asset, real or financial, is determined by the size, timing, and risk of expected future cash flows that accrue to the owner of the asset". Similarly,

Contemporary Journal of Banking and Finance

An official Publication of Center for International Research Development

Double Blind Peer and Editorial Review International Referred Journal; Globally index

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it can thus mean that the markets value of the prices of stock is reliant on dividends that are expected and to share ownership risks that that exist. The work of Peter and Iwua (2018) did opine that “for the shareholders this implies that the value of a share is the selling price of the share plus any dividends payable whilst owning the share”. The price of shares can thus be said to be a major influence on a firm’s value. Should dividends be the major determinant of the price of shares and the price of shares being the key influence on the value of a firm? It can be said that for the shareholders wealth to be maximizes; it stands to reason that to maximize, the managers of the firm has to make available to shareholders an increased combination of dividends and share price increases.

The firms policy on dividend policy can be said to be an important financial policy actions that confronts those in charge of any given firm; especially the management of firms in the banking industry. The foregoing alludes to the fact that this is a finance management function; which states a much of the firm’s to shareholders and the sum retained for investment. This makes the dividend policy of firms a controversial corporate finance issue; thus, making it a serious point divergence amongst corporate finance scholars. Both in the local and international finance circles this observed debate has remained. The management of dividend policy can be said to have the potential to influence stock prices the capital market; both negatively and positively. Does this have a direct influence on a firm’s value? The situation where there are several theories on dividend policy of the firm; which all advocate different approaches and their effect on the value for dividend payment; it has resulted in policy deviation for managers of the firms who determine which policy to adopt, resulting observed fluctuations in the value of firms, prices of their stock as well as corporate failures,

The work of Pauley (2018) described dividend policy “as a company’s policy which determines the amount of dividend payments and the amount of retained earnings for reinvesting in new projects”. The policy describes the division of the firms income into; shareholders dividend payments and new investments in available investment opportunities. A study by Madene and Dufom (2018) did posit “that dividend policy involves the determination of the payout policy that management follows in determining the

size and pattern of cash distributions to shareholders over time”. The general common opinion in corporate finance is seeing dividend payments to shareholders, reinvestment of income on new opportunities if not distributed or in other words, what amount of income of the firm goes to shareholders as dividend and what part of it will remain in the firm.

THEORETICAL FRAMEWORK

Walter’s model

Walter (1963) did posit that the value of firms’ is influenced by the policy on dividend implemented by the firm. Walter’s theoretical model expatiates on the serious link between the capital cost and the given internal rate of return (r) and the capital cost (k) and its impact on the firms’ dividend policy; which enhances shareholder’s wealth. The model follows some given premises:

1. The earnings that are retained are the main means of obtaining finance for the entire firm’s investment; hence, there is no debt or new equity;
2. There is a constant value for the internal rate of return for the firm (r), and the firm’s capital cost (k);
3. There is policy of reinvesting or distributing all earnings.
4. The value of the “firm’s earnings and dividends at the beginning remains constant. Though, earnings per share (E), and the divided per share (D) might vary in the model to determine results; yet the specific values E and D are believed to stay constant continuously to arrive at a given value” (Walter, 1963).
5. The firm seen as having a non-ending life.

The derived formula by Walter’s in order to estimate “one unit per share of market price (P) is given as:”

$$P = D/K + r (E-D)/K/K$$

The given equation presents the fact that one unit per share of the market price is represented by the addition of the two sources of incomes present value:

- (i) An infinite stream of constant dividends (D/K) in their present values and
- (ii) An infinite stream of gains in their present value.
[r (E-D)/K/K]

Empirical Review

Bauduru and Audu (2019) utilized another approach in assessing the link connecting a firm’s policy on dividends and volatility in the price of stocks in difference to stock returns. This study adopted certain control variables in order



to determine the connection that exists between the volatility in the price of shares and yield on dividends. The variables adopted as control were firm's size, debt, earning volatility and growth. The result indicates that there was a clear effect as well as strong effect on the volatility of stock price as well as on dividend yield. There is the effect of earning volatility on the volatility in the price of shares; this influences firms' optimal dividend policy. But assuming that there is constant operational risk, there might be positive effect on dividend yield by the level of debt. It also follows that volatility in the price of shares will be influenced by the size of the firm as well. This means that, the price of shares for large firms are less volatile than those of small firms; due to the fact that there more diversification in firms. It was further reiterated that public information is limited as regards the ability of small firms to assess it and this scenario might cause their investors to react irrationally. Taking a look at the Nigerian perspective, on dividend payout pattern, Maude, Jimoh and Okpanachi (2015) observed that there have been no agreed agreements as to the "rightest, middlest or leftest" road hypothesis on dividend payout. Their study found that earnings per share, inflation, and share price, exert a serious influence on dividend payout.

Daudu and Abilikama (2018) used of ordinary least square (OLS) technique to decipher the instruments that impact on financial institutions dividend policy for Nigerian firms in the period of 1999-2015. This research utilized cash dividend per share (DPS) as the explained variable while earning per share (EPS), liquidity ratio (LP). Lending rate (LR), prevailing inflation rate as explanatory variables; the findings did show that there was a lag in current earnings when compared to dividend as dividend and lending rate are the major factors that affect cash dividend payout, but that the rate of inflation and liquidity ratio did not have a significant effect on dividend payout

Amollo (2016) evaluated the effect of a firms policy on its dividend payout and the influence et exerts Kenyan commercial bank value. This research was an attempt at providing answer to problems generated firms financial publications; relating to the firms policy on dividend payout and Kenyan commercial bank value. Findings actually showed that there was a significant, but positive nexus

linking Kenyan commercial bank dividend payout and their actual value.

METHODOLOGY

The research herein considered, utilized the *ex-post-facto* design of the research in carrying out the study. The *ex-post-Facto* design paradigm; being a scientific method of equity that is empirical; which involves the use of variables that cannot be manipulated by researcher in any form or shape during the research (Kerlinger, 1973; Onwumere, 2009). The adopted data was retrieved from the CBN's Statistical Bulletin, 2020. These sourced data that was used in this study spanned 24 years (1996-2020). The study adopted stock price (equity) of DMB's in the Nigeria Stock Exchange to represent the market value of DMB's in Nigeria and making it the dependent variable; whereas, payout ratios for dividends, retention ratios, dividend yields and earnings per shares are use as explanatory variables to measure dividend policy and this revealed explicitly in appendix 1.

The Specified Model

The linear regression models are multivariate and they are utilized to test each of the hypotheses that are formulated in their null form in this research. The model relies on the hypothesis that is formulated s; as was derived from the research by Chibuke and Wasini, 2019. The functional model is expressed as: $DVD = f(DPR, RR, DY, EPS)$. Where: DVD=Dividend. DPR= Dividend Payment Ratios, RR= Retain Ratios, DY= Dividend Yield and EPS= Earnig Per Shares. Based on the foregoing, the model is modified and stated as: $DVD = f(DPR, RR, DY, EPS)$. The econometric model can be written as: $LnDVD = a_0 + Ln a_1 DPR + Ln a_2 RR + Ln a_3 DY + Ln a_4 EPS + \mu$.

a_0 = parameter (constant), $a_1 - a_4$ = each variables Elasticity Co-efficient. μ = Stochastic error term, Ln = The natural log of the variables. Log transformation is a measure adopted to mitigate the negative effect of heteroskedasticity as it reduces the measure these the variables are assessed ; bringing a tenfold difference between two values to a two times difference (Gujarati, 2004).

DATA PRESENTATION AND ANALYSIS

The study uses Dividend as proxy for shareholders wealth maximization and employs as the dependent variable; whereas, dividend payout ratios, retention ratios, dividend yields and earnings per shares are utilized as independent



variables to deposit money banks performance as indicated on appendix 1. The descriptive statistics is used to describe the basic attributes of the data series used in the analyses.

Table 1: **Summary Descriptive Statistics**

	DVD	DPR	RR	DY	EPS
Mean	356416.3	45.33231	34.25925	47.23546	38.26527
Median	34253.20	26.35230	44.83420	32.13243	32.12800
Maximum	254751.6	42.43712	35.46332	26.81353	26.81080
Minimum	124.5912	12.74653	17.14253	54.63526	54.26450
Std. Dev.	43657.23	45.362.10	32.53687	66.24357	35.90237
Skewness	1.214451	3.872635	3.463790	1.763786	1.723646
Kurtosis	3.208986	15.33546	14.42995	5.234352	5.812217
Jarque-Bera	9.562850	323.1238	240.6823	27.21454	27.21454
Probability	0.058384	0.073840	0.254638	0.059471	0.064538
Sum	677689.8	745377.6	58365.87	25375.02	26746.02
Sum Sq. Dev.	3.254650	3.197911	4.378808	4.014252	4.027213
Observations	24	24	24	24	24

Source: Author's E-Views computation, 9.1

The total number of observations is 24 for all the variables. This is indicative that all the series have no missing value in the considered time period. The average growth rates (or mean values) for the variables are: equity/stock price of quoted deposit money banks (356416.3), dividend payout ratios (45%), retention ratios (34%), dividend yields (47%) and earnings per shares (38%). The statistics from the Jarque-Bera shows the there is a non-departure from normality for all the variables; hence it will be safe to say that they are all normally distributed and skewed positively.

Table 2: **Test for Stationarity Statistics**

Variables	Level	1 st Diff.	Decision	Remarks
DVD	-4.645387*	2.727353	1(1)	Stationary
DPR	-1.25366	-3.225362*	1(1)	Stationary
RR	-3.625372	3.85769**	1(1)	Stationary
DY	-2.467593	-4.136576*	1(1)	Stationary
EPS	2.645353	-3.624362	1(1)	Stationary

Source: E-views 9.1, * (**) shows respectively a significance in the 1 and 5 percent level; the 0.01 and 0.05 levels of significance and the Mackinnon critical values.

Co-integration Test

Table 3 shows the outcome of the test, and the position of no co-integration as expressed in the null hypotheses

The summary findings of the descriptive statistics are presented on table 1.

Unit Root Test

The stationarity test statistics via Augmented Dickey-Fuller (ADF) was utilized in finding the presence of unit root and to determine the order by which each was of integrated. The hypotheses in the null form on non-stationarity of Dividend, Dividend Payment Ratios, Retain Ratios, Dividend Yield and Earning per Shares are examined against the postulations of the opposite to the main hypotheses. The outcome are presented in table 2 below.

amongst the variables (i.e., $r=0$) as examined in contrast to the other hypothesis in the alternative form for the existence for co-integration amongst the variables (that is $r=1$). The stated hypothesis in the null form of absence of co-integration failed the test at the 0.05 level of significance. Though, the hypothesis in the null form that $rd'' 1$ is



accepted in contrast to the alternative $r=2, r=3$ and $r=4$, which means that a unique co-integrating relationship exists amongst the tested variables. Thus, a long-run nexus exists

amongst both the dependent and independent the variables as shown by the likelihood ratio from table 3.

Table 3: Result from Multivariate test for Co-Integration (Johansen). Lags interval: 1 to 2

Null hypotheses.	Alternative hypotheses	Eigen value	Likelihood ratio	Critical values	5% Critical	Hypothesized No.
$r=0$	$r=1$	0.8255	68.5463	56.64	62.21	None **
$rd \leq 1$	$r=2$	0.6212	54.1464	46.84	53.02	At most 1
$rd \leq 2$	$r=3$	0.4142	46.7564	32.04	44.84	At most 2
$rd \leq 3$	$r=4$	0.2450	36.2416	23.74	42.04	At most 3
$rd \leq 3$	$r=4$	0.3543	24.2325	22.53	38.92	At most 4

Source: E-views 9.1

Note: * (**) describes hypothesis rejection within the 0.05 (0.01) significance level.

Table 4 Vector Error Correction Model

Dependent Variable: D(DVD)

Method: Least Squares

Date: 07/10/2021 Time: 04:55

Sample (adjusted): 1996 2019

Final observations: 24 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	439.2301	0.625432	1.243571	0.0125
D(DY)	2726.559	0.073624	2.058259	0.0021
D(EPS)	1489.577	0.523425	2.946748	0.0246
D(DPR)	23415441	0.378373	1.026358	0.0244
D(RR)	37653641	1.036472	1.203647	0.0110
ECM(-1)	-0.67163	0.124252	1.351792	0.0251



R-squared	0.621641	Mean dependent var	1131.400
R-squared Adjusted	0.591505	S.D. dependent var	8025.207
S.E. of regression	1431.239	Akaike info criterion	20.99736
Sum squared resid	1.696009	Schwarz criterion	21.27219
Log likelihood	-329.9578	Hannan-Quinn criter.	21.08846
F-statistic	6.435256	Durbin-Watson stat	1.974626
Prob. (F-statistic)	0.000000		

Source: Computation by the Author using E-views 9

From Table 4, the least square outputs utilized to analyze the four hypotheses stated in this study. The term for the error correction gives us the information on speed at which the estimated model will come to equilibrium based on the variations observed in the short term; but not reflected in the Johansen test cointegration test. The coefficient of the ECM at -0.67163 reveals the fact that ECM (-1) is specified adequately and the statistics for the diagnostics are good. The sign being negative shows the adjustment of the regressor variables to the dependent variable in the short term. The term referred to as the ECM reveals a 62 per cent in adjustment as regards the models speed back to equilibrium. This means that 67 per cent of disequilibrium is a consequence of the impact of exogenous shocks or short term variations in the past year is corrected in the current year. The DY is non-linear but negative from the findings of the study, though is significant in both the short and long term to the EQP. There is a negatively insignificant non-linearity for the EPS and DVD both long and short term. Consequently, the F statistics shows the significance of the overall model. This conclusion is based on fact that the F-statistics of 6.435256 is more than the F-probability of 0.000000. The value for the coefficient determination (R^2) is indicate that 62 per cent; meaning the dependent variable (DVD) is adequately explained by the regressors in the derived model.

CONCLUSION AND RECOMMENDATIONS

The finding from this research shows the wealth of shareholders maximization significantly influences the performance of deposit money banks' in Nigeria. The foregoing implies that Banks have to put into consideration the effective use of dividend via its significant effect on the value of their total equity holdings. The definitive adoption of the various variables in a banks; becomes a imperative as

to effect the banks' equity price. An articulate adoption of cash dividend, script issue/bonus, and a good combination of what to pay out and what to retain to plough back for growth and expansion must be ensured at all time. Should there be a lack luster approach of the dividend policy via the absence of transparency and the distortion of accounts can result in the loss of confidence in the bank as well as shareholders disinvesting; leading to a drastic fall in share price of the bank. This behooves the banks to manage their capital structure through the efficient use of each banks dividend policy. Adopting the findings of the dividend policy will produce such profitability that ensures increasing growth and the equity share price of of quoted commercial banks in Nigeria.

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APPENDIX 1:

YEARS	EQP	DY	EPS	DPR	RR
1996	6992.1	0.3056	0.7824	0.239	0.761
1997	6440.5	0.4174	1.8177	0.2229	0.7771

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1998	5672.7	0.3439	1.3739	0.2375	0.7625
1999	5266.4	0.2373	1.2576	0.1397	0.8603
2000	228111	0.2257	0.7999	0.2326	0.7674
2001	10963.1	0.2442	0.8055	0.2075	0.79225
2002	12137.7	0.1968	1.1884	0.2044	0.7956
2003	20128.9	0.316	0.7274	0.2149	0.7851
2004	23844.5	0.3254	0.9212	0.2248	0.7752
2005	24085.8	0.3972	0.8964	0.2554	0.7446
2006	33189.3	0.3426	1.1884	0.2093	0.7907
2007	57990.2	0.2562	1.0284	0.2258	0.7742
2008	31450.8	0.8013	1.1014	0.1878	0.8122
2009	20827.2	0.5754	2.7545	0.1014	0.8986
2010	24770.5	0.4124	2.7276	0.0898	0.9102
2011	20730.6	0.5304	2.2846	0.0957	0.9043
2012	28078.8	0.4633	1.0479	0.1661	0.8339
2013	41329.2	0.4422	0.7757	0.1773	0.8227
2014	39229.3	0.4683	0.8452	0.172	0.828
2015	29322.1	0.5925	0.9563	0.1616	0.8384
2016	36331.8	0.5059	1.149	0.176	0.824
2017	39427.2	0.5238	1.635	0.836	0.725
2018	36029.3	0.5735	1.529	0.783	0.735
2019	38293.2	0.5823	1.538	0.836	0.727
2020	38944.4	0.5739	1.635	0.855	0.745

Source: Central Bank of Nigeria Statistical Bulletin 2020