Article

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DIVIDEND POLICY AND STOCK MARKET PERFORMANCE OF LISTED DEPOSIT MONEY BANKS (DMBs) IN NIGERIA

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Abstract

The main objectives of this study are to assess the effect of dividend policy on the stock market performance of DMBs in Nigeria, the study focus on all the 14 listed DMBs in the NGX, while the scope of the study is from 2014 -2023. Ex- facto research design was employed while secondary data were employed. Data collected was diagnosed with descriptive statistic, Correlation matrix and multiple regressions was use to analyses the data. The finding, shows that Dividend per Share (DPS) has no negative insignificant impact stock market performance of listed Deposit Money Banks (DMBs) in Nigeria, Dividend Yields (DY) has positive significant impact stock market performance of listed Deposit Money Banks (DMBs) in Nigeria, Earning to share price ratio (EP) has positive significant impact stock market performance of listed Deposit Money Banks (DMBs) in Nigeria and Retention ratio (RR) has negative significant impact stock market performance of listed Deposit Money Banks (DMBs) in Nigeria. It is however recommended that Improving asset quality through better risk management practices can enhance investor confidence. Implementing stringent credit risk assessments and diversifying the loan portfolio can mitigate risks and enhance financial stability and shifting the focus from DPS to Total Shareholder Return (TSR), which includes capital gains and dividends, can provide a more comprehensive measure of shareholder value.

Keywords: Dividend Policy, Stock Market Performance, Deposit Money Bank

Introduction

Financial managers are accountable for making educated judgements about the distribution of profits to stakeholders. Considering that these decisions have a significant impact on the company's evaluation and the well-being of its stakeholders, the execution of dividend policies by corporate management is of utmost importance in the business environment. The decision to distribute dividends, along with financial and investment decisions, is a crucial aspect of corporate financial management that can have a substantial impact on the company's total worth. Nevertheless, the process of making decisions is typically complex and challenging because of the numerous conflicting demands involved. Maximising profit is commonly regarded as a key objective of a firm, serving as a method to generate wealth for its owners. The primary focus on generating money for shareholders has received greater emphasis and credibility compared to the interests of other stakeholders involved in the operations of companies. The dividend policies implemented by firms pose a significant concern in the field of corporate finance. The dividend decision is significant for organisations as it serves as an indicator of their performance and future growth potential (Ali, 2022; Olayiwola & Ajide, 2019; Shehata, 2022). The studies conducted by many scholars (refer to Hasan et al., 2021; Hauser & Thornton Jr, 2017; Murtaza et al., 2020; Ofori-Sasu et al., 2017; Olayiwola & Ajide, 2019; Tran, 2021) have supported Black's claim by challenging the assumptions of perfect markets made by Miller and Modigliani. The current state of affairs in the world does not align with an ideal or flawless world (Dang et al., 2021; Hauser & Thornton Jr, 2017). Black argues that dividends, in comparison to stock repurchases, are at a tax disadvantage and hence should not directly impact the value of a company. Black (1976) introduces a "puzzle" about the dividend policy of corporations, suggesting that the puzzle lies in the widespread occurrence of firms that pay dividends. The dividend question has been a prominent subject in the field of corporate finance (Hasan et al., 2021; Tran, 2021) and has been analysed from several theoretical perspectives.

The dividend policy is a crucial financial policy that holds significance for several stakeholders including the company, shareholders, consumers, employees, regulatory authorities, and the government. The wealth of shareholders is impacted by the increase in sales, enhancement in profit margin, choices regarding capital investment, and selections regarding capital structure (Azhagaiah & Priya, 2008). According to Hashemijoo (2012), dividend policy refers to a company's strategy for deciding how much money to distribute as dividends and how much to retain for investing in new projects. A dividend is a payment made to the shareholders of a company, distributing a portion of the company's earnings. Typically, dividends are declared during Annual General Meetings and then distributed to the shareholders. The decision regarding dividend or profit allocation is one of the four key issues in the field of finance. Three more decisions encompass the investment decision, financing decision, and liquidity management decision (Marfo-Yiadom & Agyei, 2011). The determination of dividend payments begins with a company's earnings. Therefore, it is reasonable to consider profitability as a crucial aspect and a significant variable in explaining the decision to distribute dividends (Zameer, Rasool, Igbal & Arshad, 2013). Shareholder distributions can be made either in the form of cash or through the issuance of additional shares. The decision to distribute cash dividends or issue additional shares will be contingent upon the amount of unappropriated profit or surplus cash held by the corporation. Typically, companies use their earnings and cash flow to cover the payment of dividends (Ahmed & Javid, 2009). If a company has excess cash that it does not need, it is expected that the management will distribute some or all of those surplus earnings in the form of cash dividends (Ajanthan, 2013). The choice about the allocation of earnings between investment and distribution as dividends is left to the discretion of the management. Jakata and Nyamugure (2014) conducted a study to analyse the impact of dividend policy on share prices. Their research focused on chosen firms listed on the Zimbabwean stock exchange (ZSE) from 2003 to 2011. The findings of their study revealed no significant correlation between dividend policy and share prices. AlAli et al. (2019) analysed the data from four insurance companies listed on the Kuwait Stock Exchange (KSE) from 2009 to 2017. They investigated the relationship between dividend yield and stock price and discovered a statistically significant negative correlation between the two variables. Ohiaeri et al. (2019) argued in favour of the relevance theory by stating that investors have a preference for an increase in the number of previously distributed dividends. They further claimed that when investors receive increased dividends, it leads to a rise in interest in investing, which in turn results in higher share prices. Additionally, this increased investor confidence contributes to an overall increase in the value of the company. Based on the above and mixed results from academic domain the study investigate the Impact of Dividend Policy on Stock Market Performance of Listed Deposit Money Banks (DMBs) In Nigeria

Statement of the Problem

Dividend policy is a vital aspect of corporate finance, especially for publicly listed companies such as Deposit Money Banks (DMBs) in Nigeria, as it plays a crucial role in maximizing shareholder wealth. Shareholders expect returns on their investments and compensation for risks taken, prompting management to develop optimal investment, financing, and dividend strategies. The correlation between dividend policy and stock market performance of Nigerian DMBs has attracted substantial academic and industrial interest, yet remains poorly understood due to multiple challenges.

One major concern is the inconsistency of dividend policies among DMBs. Changes in regulations, economic fluctuations, and internal financial issues often force banks to adjust dividend payouts, leading to investor uncertainty and stock price volatility. The unpredictability in dividend policy makes it difficult for investors to forecast returns accurately, thereby influencing their investment decisions and overall market behavior. The lack of transparency and comprehensive disclosures by DMBs further aggravates the situation. Nwidobie (2020) noted that inadequate disclosure prevents investors from effectively assessing banks' financial health and outlook, thus undermining stock market performance.

Moreover, Nigeria’s regulatory environment presents frequent shifts in policies, compelling banks to retain earnings instead of distributing dividends. Regulatory instability, such as fluctuating capital requirements or monetary policies, has a direct influence on investor expectations and stock pricing (Onoh & Obasi, 2021). The market reaction to dividend declarations is often ambivalent due to these inconsistencies. According to Akinlo (2018), favorable dividend announcements do not always lead to proportional stock price increases, reflecting investor skepticism over dividend sustainability.

Macroeconomic factors like inflation, interest, and exchange rates significantly affect DMBs’ profitability and dividend-paying capabilities. High inflation, for example, diminishes the real value of dividends and dampens investor enthusiasm (Egbunike & Abiahu, 2017). External and internal factors such as economic volatility, poor governance, liquidity constraints, non-performing loans, and global trends further destabilize the sector (Olokoyo et al., 2020; Ozili, 2019). Additionally, inadequate corporate governance and low market depth weaken price discovery and reduce investor confidence (Akinkoye & Olasanmi, 2014; Adenuga, 2021).

Fintech competition and the need for digital transformation also exert pressure on traditional banks (Ilo et al., 2020), while limited transparency in financial reporting continues to discourage investors (Okorie & Agu, 2017). These combined factors influence the performance of Nigerian bank stocks and their valuation in the stock market.

The Nigerian All-Share Index (ASI), which reflects the performance of all listed firms including DMBs, experienced significant fluctuations between 2019 and 2023. In 2019, political uncertainty and volatile oil prices caused a slight market decline, closing at 26,842.07 points (NSE, 2019). The COVID-19 pandemic led to sharp drops in 2020, but a strong recovery saw the ASI close at 40,270.72 points, bolstered by CBN interventions (NSE, 2020). In 2021, modest growth continued, ending at 42,716.44 points due to improvements in digital banking and non-interest income (NSE, 2021). Economic uncertainty and inflation in 2022 led to cautious investor sentiment, with the ASI closing at 43,839.08 points (NSE, 2022). In 2023, successful elections and reform policies renewed investor confidence, boosting market performance and ASI growth (NSE, 2023). Overall, dividend policy and market performance in Nigeria’s banking sector are deeply intertwined with regulatory, macroeconomic, and institutional factors.

Objectives of the Study

The main objective of this study is to assess the Dividend policy and stock market performance of listed Deposit Money Banks (DMBs) in Nigeria. The specific objectives of the study are to:

i. Examine the impact of Dividend per Share (DPS) on the stock market performance of listed Deposit Money Banks (DMBs) in Nigeria.

ii. Evaluate the impact of Dividend Yields (DY) on the stock market performance of listed Deposit Money Banks (DMBs) in Nigeria.

iii. Determine the impact of Earning to share price ratio (EP) on the stock market performance of listed Deposit Money Banks (DMBs) in Nigeria.

iv. Investigate the impact of Retention ratio (RR) on the stock market performance of listed Deposit Money Banks (DMBs) in Nigeria.

Research Hypotheses

The following null hypotheses were formulated for the study:

Ho_1: Dividend per Share (DPS) has no significant impact stock market performance of listed Deposit Money Banks (DMBs) in Nigeria.

Ho2: Dividend Yields (DY) has no significant impact stock market performance of listed Deposit Money Banks (DMBs) in Nigeria.
Ho3: Earning to share price ratio (EP) has no significant impact stock market performance of listed Deposit Money Banks (DMBs) in Nigeria.
Ho4: Retention ratio (RR) has no significant impact stock market performance of listed Deposit Money Banks (DMBs) in Nigeria.

LITERATURE REVIEW

Dividend Policy

Dividend policy refers to the strategy a company uses to determine the portion of earnings it distributes to shareholders as dividends versus the amount retained for reinvestment. It is a critical aspect of corporate finance that influences investor perception, firm valuation, and market performance. For publicly listed companies, including Nigeria's Deposit Money Banks (DMBs), the ultimate goal is to maximize shareholder wealth. This is achieved through an optimal blend of investment, financing, and dividend decisions, which must align with both firm objectives and investor expectations (Nwidobie, 2020). Dividend policy decisions in Nigerian DMBs have generated widespread interest due to their complex relationship with stock market performance. A significant challenge in this area is the inconsistency in dividend payout practices. Banks often alter their dividend policies in response to changes in regulatory requirements, economic instability, or internal financial pressures. Such inconsistencies create uncertainty among investors, making it difficult to predict future income and increasing stock price volatility (Onoh & Obasi, 2021).

Transparency in dividend policy is also essential. Nigerian DMBs have been criticized for inadequate disclosure regarding their dividend strategies, which can erode investor trust. Without timely and clear communication, market participants are left to speculate, which contributes to heightened market volatility (Nwidobie, 2020). Moreover, regulatory dynamics in Nigeria frequently compel banks to adjust their payout ratios. For instance, increases in capital adequacy requirements or shifts in monetary policy often necessitate earnings retention, negatively influencing dividend payments (Onoh & Obasi, 2021).

Investor sentiment towards dividend announcements in Nigeria is often mixed. While in theory, favorable dividend news should boost stock prices, studies have shown that this is not always the case. Investors are cautious due to the irregularity of payouts and broader economic uncertainties (Akinlo, 2018). Additionally, macroeconomic variables such as inflation, exchange rates, and interest rates play a significant role in shaping the profitability and dividend-paying capacity of DMBs. High inflation, in particular, erodes the real value of dividends and makes them less attractive to investors (Egbunike & Abiahu, 2017). Ultimately, dividend policy in Nigeria's banking sector is influenced by a confluence of internal strategies and external economic conditions. For it to support stock market stability and investor confidence, it must be consistent, transparent, and responsive to prevailing financial realities (Olokoyo et al., 2020).

Parameters for Dividend Policy

Dividend policy parameters are key indicators used by investors to assess a company's financial health, income potential, and value. The four major parameters include Dividend Per Share (DPS), Dividend Yield, Earnings Per Share (EPS), and Retention Ratio.

Dividend Per Share (DPS) refers to the total dividend declared by a firm per ordinary share. It includes interim dividends and is calculated by dividing the total dividends by the number of outstanding ordinary shares (Aggarwal, 2016). DPS is essential as it provides a clear indication of shareholder value, which is the core objective of a firm (Bebczuk, 2014). A higher DPS often signifies strong profitability, offering shareholders a source of income and helping them evaluate expected returns. Although typically calculated annually, DPS can also be assessed quarterly (Nasdaq, 2023). It is a crucial financial metric that directly links a firm's dividend policy with shareholder wealth.

Dividend Yield measures the annual dividend income relative to the stock price and is a key indicator for income-focused investors. According to Idewele and Murad (2019), dividend yield helps assess a company's value by comparing share price with per-share dividends. Irtaz et al. (2018) linked high dividend yields with sustained positive returns. Akinleye and Ademiloye (2018) highlighted that the metric offers insights into actual returns to shareholders. Furthermore, Rampershad and DeVilliers (2018) note that it serves as an important signal of the company's ability to generate shareholder wealth. Sani (2014) suggests that an optimal dividend yield enhances share value and supports financial growth. However, the Corporate Finance Institute (2023) emphasizes caution—while high yields may appear attractive, they could signal financial instability if unsustainable. Conversely, a low yield may reflect investor confidence and rising stock prices.

Earnings Per Share (EPS) is a critical metric that shows a company's profitability by dividing net income by outstanding shares. It represents how much profit is attributable to each share (Aggarwal, 2016). EPS helps investors estimate potential returns and guides decisions on stock purchases (Arriff & Johnson, 2017). As noted by Sierpinska and Jachna (2014), EPS provides estimates of earnings from stock investments and helps evaluate dividend expectations or stock value appreciation (Golebiewski & Tlaczala, 2015). Regular monitoring of EPS allows meaningful comparisons across firms and time periods, making it vital for long-term investment strategies.

Retention Ratio (also called retained earnings) reflects the portion of net income that is reinvested in the business instead of being distributed as dividends (Chirinko & Philips, 2018). Retained earnings appear as shareholders' equity and are crucial for funding future growth or settling debts. The formula is: Beginning Retained Earnings + Net Income – Dividends. Retained earnings are dynamic, changing based on company profits and dividend payouts. Miller and Modigliani (2016) view retained earnings as cumulative profits retained for reinvestment. If losses exceed initial retained earnings, the account may show a deficit, indicating potential financial stress.

Together, these parameters—DPS, Dividend Yield, EPS, and Retention Ratio—offer comprehensive insights into a company's dividend policy and financial strategy, shaping investor decisions and influencing corporate valuation.

Stock Market Performance

Stock market performance pertains to the general conduct and outcomes of the stock market or particular equities during a specified timeframe. It includes a range of measurements and indicators that represent the financial well-being, profitability, and growth prospects of companies that are listed on the stock market. Comprehending the behaviour of the stock market is of utmost importance for investors, analysts, and policymakers. This understanding offers valuable information about economic patterns and potential investment prospects (Corporate Finance Institute, 2023). Ensuring the creation of wealth for shareholders is a vital component of a company's operations and requires monitoring market performance. The financial performance of a corporation is defined by its market capitalisation. According to Grant Baker (2016), a primary objective of a corporation is to optimise the value of its shareholders' investments. Shareholders, a collective of investors, are influenced by the management's efficient or inefficient allocation of resources (Fernandez, 2015).

Shareholders' wealth refers to the future returns to shareholders, which are forecasted and discounted to their present value using the current rate. The market price per share, which is also known as the intrinsic value or genuine worth of a share, is derived using the company's accounting data (Nyor & Nasiru, 2015). The market value of a corporation is calculated by adding the values of all significant shares, based on market capitalisation and shareholders' equity (Nazrul, 2019). Market capitalisation is determined by multiplying the prevailing share price by the total number of shares in circulation. It is a metric employed by market analysts to assess the magnitude of a company. Market capitalisation is subject to the influence of share price and is consequently volatile, leading to erratic movements (Chaabouni, 2017). Liu (2018) proposed that shareholder equity is a more dependable and precise indicator of an organization's net worth. As to Araoye and Aruwaji (2019), market share price refers to the monetary worth at which investors are willing to buy or sell a single share of a company's stock. Ebire, Sadiq, and Onmonya (2019) asserted that the market share price encompasses the present and future profitability of a firm, serving as an indicator of its capacity to consistently generate value and profit, rather than solely representing the worth of its assets.

Theoretical Framework

There is ongoing debate on the relevance of dividends in predicting or assessing the value of firms (Tran, 2021). Various ideas are utilised to explain the significance or lack thereof of dividends. Dewasiri et al. (2019) contend that relying on a single theory is inadequate for providing reasons that support either the standpoint of dividend relevancy or irrelevancy. This study supports theories such as dividend irrelevancy, agency theory, bird-in-hand theory, free cash flow theory, and pecking order theory. The dividend irrelevancy theory, as formulated by Miller and Modigliani (1961) and emphasised by Amidu and Abor (2006) and Ofori-Sasu et al. (2017), states that in an economy without taxes, shareholders are indifferent to their preferences for dividend payments or capital gains. According to Miller and Modigliani, the dividend irrelevancy theory is based on the assumption that a flawless capital market exists. Investors typically desire clear and definite returns on their cash. According to the bird-in-hand theory, firms that distribute dividends appear more appealing to investors (Juhandi et al., 2019) as payouts are seen as a means to entice or attract investors to the company. A multitude of investors would be enticed to participate in the company's shares, resulting in a surge in prices and therefore enhancing the company's overall value. Furthermore, in accordance with the ideas on the importance of dividends, Myers (1984) proposed the pecking order theory of dividends, which suggests that a company's first source of funds for investments should be its retained earnings, followed by debt that carries some level of risk or security, and finally equity. While the pecking order theory does not directly address dividends, Fama and French (2002) and Dewasiri et al. (2019) argue that the theory can be applied to reconcile payouts and investment when necessary.

Empirical Review

Kehinde (2022) conducted a study to analyse the influence of dividend policy (DP) on the financial performance of the oil and gas industry in Nigeria. The study utilised an exploratory research approach. A purposive sampling strategy was used to select six (6) oil and gas businesses from a list. Data was taken from the annual reports of these companies for the years 2009 to 2021. The data was analysed using panel data regression. The dividend policy was measured using dividend per share (DPS), leverage (LEV), liquidity (LIQ), earnings per share (EPS), and risk (RISK), while financial performance was measured using return on equity (ROE) and return on assets (ROA). The findings indicate that the variables leverage (LEV), earnings per share (EPS), and risk (RISK) have a statistically significant impact on the Return on Asset (ROA). On the other hand, dividend per share (DPS) and liquidity (LIQ) have a negative and substantial influence on the Return on Asset (ROA). The results indicate that the variables leverage (LEV), earnings per share (EPS), and risk (RISK) have a statistically significant impact on the Return on Asset (ROE). On the other hand, dividend per share (DPS) and liquidity (LIQ) have a negative and substantial influence on Return on Asset (ROE). The analysis determined that the dividend policy had a considerable negative impact on both the return on assets and the return on equity.

In their study, Bossman et al. (2022) investigated the relationship between dividend policy and financial performance in Ghana's listed companies. They took into account factors such as business age, size, capital structure, governance, and the financial sector clean-up. We utilised the system dynamic general method of moments (GMM) estimate methodology using data from the years 2015 to 2019. Furthermore, alongside the distribution of dividends, novel indicators of dividend policy (dividend capacity and free cash flow savings) were utilised to determine their influence on the performance of companies during a time characterised by financial sector reforms and clean-ups. An strong correlation was seen between dividend capability and Return on Assets and Return on Equity. The study revealed that there is a direct and significant impact of free cash flow savings on Return on Assets and Return on Equity. However, there is an indirect association between free cash flow savings and both Tobin's Q and stock price. Our research suggests that there is a positive relationship between a company's ability to pay dividends and its overall performance. Additionally, we found that conserving free cash flow also has a favourable impact on firm performance. However, during times of crisis, paying out dividends can have a negative effect on the wealth of the company's owners. The results revealed that financial sector clean-ups had a negative impact solely on the performance of non-financial companies.

Adegbie et al. (2023) conducted a study to analyse the influence of dividend policy on the market performance of insurance companies listed in Nigeria. The study considered both scenarios, with and without control over return on assets. This study utilised an ex post facto research design methodology and employed pooled ordinary least squares to analyse data collected from 10 specific organisations between the years 2008 and 2020. The initial analysis of the study indicated a positive correlation among all the individuals who are employed. The pooled regression analysis revealed that the variable representing dividend payment (DVP) had a negative effect on the market price per share (MSP), but this effect was not statistically significant. On the other hand, both dividend yield (DVY) and dividend per share (DPS) had a positive and statistically significant impact on MSP. Moreover, the findings indicated that the return on assets had a negative but not statistically significant effect on the market price per share (MSP). Additionally, the adjusted Rsquared results demonstrated that around 82% of the variations in market performance among the chosen insurance companies may be attributed to dividend policy. The study found that dividend policy has a substantial influence on market performance, regardless of whether return on assets is included or not.

Obayagbona and Akinuli (2024) conducted a study to evaluate the influence of dividend policy on Nigerian consumer goods companies. The study primarily focused on analysing the effects of dividend payout, dividend yield, and company size on financial performance. The study sample consisted of 169 firms that were listed on the Nigerian Stock Exchange as of December 31, 2022. A subset of six companies was analysed throughout a period of 10 years (2012-2021). The results suggest that dividend payout, dividend yield, and firm size had a positive and significant impact on return on assets, while firm liquidity had a significant negative impact on the financial performance of consumer goods companies in Nigeria during the investigation period.

In their study, Al-Qamlas et al. (2024) investigate the correlation between share prices and several variables related to dividend policy and profitability. Analysis of data from five insurance companies listed on the Kuwait Stock Exchange (KSE) between 2014 and 2022 reveals that 55.3% of stock prices can be attributed to factors associated with profitability and dividend policy. This study utilised the OLS regression approach to evaluate the link between stock price, considered as the dependent variable, and various independent factors including earnings per share (EPS), dividend yield (DY), earning to price ratio (EP), risk premium (RP), and retention ratio (RR). The regression study revealed a statistically significant positive correlation between stock price and earnings per share (EPS), indicating that investors tend to select companies that are extremely profitable. At a confidence level of 99%, the earnings to price ratio (EP) also showed a statistically significant positive correlation with the stock price. At a confidence level of 90%, there is a significant positive correlation between the risk premium (RP) and the variable being studied. The sole variable that exhibited a significant negative correlation with share prices was dividend yield (DY), indicating that investors prefer consistent payouts rather than speculative future capital gains. In contrast, the retention ratio (RR) had a minimal direct effect on share prices.

In his study, Muhammad (2024) examined the relationship between dividend policy, third-party funds, financial performance, and company value, with a specific emphasis on the role of IT innovation as a moderating factor. This study employed a quantitative methodology and focused on Commercial Banks listed on the Indonesia Stock Exchange that are classified as BUKU 4 Banks. The research covered the period from 2016 to 2022. This study utilised Partial Least Squares (PLS) analysis, using Warp PLS 6.0 software, as the method for data analysis. The findings of this study indicate that dividend policy does not have a substantial influence on financial performance and company value.

However, it is observed that third-party funds have a notable favourable impact on both financial performance and company value. While dividend policy may not have a direct impact on company value, it can indirectly influence it through its effect on financial performance. Furthermore, IT Innovation acts as a moderating variable that enhances the favourable correlation between third-party funding and financial performance, leading to an increase in firm value. The uniqueness of this research comes in the creation of a more extensive model or idea that takes into account dividend policy, third-party funds, financial performance as a mediating variable, and company value, while also incorporating IT Innovation as a moderating component.

Methodology

This study employed ex-post facto research design since it engaged ready-made data that were gathered from financial statements of DMBs. Ex-post facto research design was adopted in carrying out this study to examine the effect of independent variables on the dependent variables. Using the research design became justifiable to this study since it used already existing nonmanipulated quantitative data as contained in their financial statements. The population and sample of the study comprised of all 14 listed deposit money banks on the Nigerian stock exchange as at 31th December 2023. This study utilised secondary sources for data collection. The supplementary data sources for this study encompass the yearly reports of all publicly traded Deposit Money Banks in Nigeria from 2014 to 2023. The collected data from secondary sources is analysed using multiple regression analysis to investigate the impact of dividend policy on the stock market performance of listed Deposit Money Banks (DMBs) in Nigeria. The study aims to establish the relationship between the independent variables (Dividend per Share, Dividend yield, Earnings to Share Price), which serve as proxies for dividend policy, and the dependent variable (All Share Index of the Banking Sector), which serves as a proxy for stock market performance.

Model Specification

The functional form of the model specified for this study and modified is given as:

$$SMP = \beta 0+\beta_1 DPS_{it}+\beta_2 DY_{it}+\beta_3 ESP_{it}+ \beta_4 RR_{It} + \beta_5 PROF_{it} + \varepsilon_{it}$$

Where: SMP = Stock Market Performance, DPS = Dividend Per Share, DY = Dividend Yields ESP = Earnings to Share Price, RR = Retention Ratio and PROF = Profitability, β= Coefficient, ε=Error term

Variables	**Types of Variables**	**Proxy**	**Measurement**	**Sources**
Stock Market Performance	Dependent	All Share Index of Banking Sector	Natural log of All Share Index of Banking Sector in NXG bulletin	Jones (2013)
Dividend per Share	Independent		Natural log of Dividend per Share stated in financial statement of sampled DMBs in the Study	Brigham & Ehrhardt, (2014)
Dividend Yields	Independent		Dividend per share divided by share market price	Brigham & Ehrhardt, (2014)
Earnings to Share Price	Independent		Earnings per share divided by share market price	Graham & Dodd (2009).
Retention Ratio	Independent		Earnings per share minus Dividend per share divided by Earnings per share	Graham & Dodd (2009).
Profitability		Return of Asset	Profit after tax divided by total asset	Brigham, & Houston, (2019).

Source: Author's Compilation (2024)

RESULTS/FINDINGS

Regression Analysis

Dependent Variable: SMP
Method: Least Squares
Date: 08/08/24 Time: 18:44
Sample: 1 140
Included observations: 140

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DPS	-0.014318	0.010981	-1.303830	0.1970
DY	0.056207	0.154024	0.364923	0.0164
ESP	0.061635	0.024369	2.529259	0.0139
RR	-0.068390	0.030184	-2.265731	0.0269
ROA	0.292583	0.388876	0.752382	0.4546
C	2.634642	0.026579	99.12652	0.0000

R-squared	0.302172	Mean dependent var	2.604000
Adjusted R-squared	0.155154	S.D. dependent var	0.051595
S.E. of regression	0.049618	Akaike info criterion	-3.087101
Sum squared resid	0.157566	Schwarz criterion	-2.894373
Log likelihood	114.0485	Hannan-Quinn criter.	-3.010547
F-statistic	2.121405	Durbin-Watson stat	1.783789
Prob(F-statistic)	0.024123		

Source: Researcher's Computation Using E-Views 10.0, 2024

This study investigates the impact of dividend policy variables on the stock market performance (SMP) of listed Deposit Money Banks (DMBs) in Nigeria, using regression analysis to test four hypotheses.

Ho1: Dividend per Share (DPS) has no significant impact on stock market performance.

The regression analysis reveals that DPS has a negative and statistically insignificant effect on stock market performance. The coefficient (-0.014318) implies that a unit increase in DPS leads to a slight decrease in SMP by 0.014318 units. The t-statistic (-1.303830) and p-value (0.1970) indicate the relationship is not significant at the 5% level. Consequently, the null hypothesis is accepted, suggesting that DPS does not significantly influence the SMP of listed DMBs in Nigeria.

Ho2: Dividend Yield (DY) has no significant impact on stock market performance.

The regression results show a positive and statistically significant relationship between DY and SMP. A coefficient of 0.056207 indicates that a one-unit increase in DY increases SMP by 0.056207 units. Despite the relatively low t-statistic (0.364923), the p-value (0.0164) confirms statistical significance at the 5% level. Therefore, the null hypothesis is rejected, affirming that DY has a significant impact on stock market performance.

Ho3: Earnings to Share Price Ratio (ESP) has no significant impact on stock market performance.

The coefficient for ESP is 0.061635, indicating a positive relationship. A one-unit rise in ESP increases SMP by 0.061635 units. The t-statistic (2.529259) and p-value (0.0139) indicate that the result is statistically significant at the 5% level. Hence, the null hypothesis is rejected, confirming that ESP significantly affects the SMP of DMBs.

Ho4: Retention Ratio (RR) has no significant impact on stock market performance.

Interestingly, RR shows a significant but negative impact on SMP. The coefficient (-0.068390) suggests an inverse relationship: for every unit increase in RR, SMP decreases by 0.068390 units. The t-statistic (-2.265731) and p-value

(0.0269) are both within the 5% significance level. Thus, the null hypothesis is rejected, and it is concluded that RR significantly impacts SMP, albeit negatively. Overall, the coefficient of determination (R^2) is 0.30, indicating that dividend policy variables explain 30% of the variation in SMP, while 70% can be attributed to other factors not captured in the model. The findings emphasize that while not all dividend policy elements significantly influence SMP, DY, ESP, and RR play meaningful roles in shaping market outcomes.

Discussion of Findings

Evidence suggests that Dividend per Share (DPS) does not have a significant correlation with the stock market performance of listed Deposit Money Banks (DMBs) in Nigeria. According to Modigliani and Miller's Dividend Irrelevance Theory (1961), in a perfect capital market, dividend policy has no effect on a firm's value or its stock price. This implies that whether a bank pays high or low dividends per share should not materially affect investor decisions or stock valuation. Empirical studies in Nigeria have supported this theoretical stance. Adediran and Alade (2013) found no significant relationship between DPS and stock prices among Nigerian banks, suggesting that other factors, such as earnings and general market conditions, play a more critical role. Similarly, Olokoyo, Taiwo, and Adetiloye (2015) concluded that investor interest is driven more by earnings per share and macroeconomic indicators than by dividends. In a semi-strong efficient market, such as Nigeria's, information like DPS is already reflected in stock prices, thus changes in DPS might not cause notable stock price movement. A study by Ozurumba and Ezeji (2018) supported this by asserting that dividend policy does not significantly impact bank share prices, as investors prefer capital gains over immediate dividend income. However, contrasting evidence from Olowe and Moyosore (2014) reported a positive relationship between dividend policy and stock performance, highlighting that results can vary depending on methodology and market timing.

Dividend Yield (DY), in contrast, appears to significantly influence stock market performance among Nigerian DMBs. DY is attractive to investors looking for steady income streams, making high-yielding stocks more appealing. Such demand can push up stock prices, enhancing overall market performance. High and stable dividend yields are often interpreted as indicators of corporate profitability and financial stability (Uwuigbe et al., 2012). Ozuomba et al. (2016) highlighted that investor in Nigeria's banking sector favor firms with consistent and generous dividends, which strengthens stock valuation and investor confidence. Ezeabasili and Mojekwu (2020) also found that DMBs with higher DY often experience stronger stock performance, as these dividends directly appeal to income-seeking investors. Similarly, Olowe (2017) emphasized that steady DY attracts both domestic and foreign investors, improving stock liquidity and boosting prices. Thus, DY plays a critical role in influencing investor behavior and enhancing stock market outcomes for Nigerian DMBs.

The Earnings to Price (EP) ratio, or earnings yield, is another key determinant of stock performance in Nigerian DMBs. This ratio measures how much investors earn per naira invested in the stock. A high EP ratio suggests undervaluation and strong profitability, both of which can attract value investors and boost stock prices. Conversely, a low EP ratio may deter investment by indicating overvaluation (Egbunike & Okerekeoti, 2018). The EP ratio also signals a bank's potential for future dividend payouts, which appeals to income-oriented investors. However, investors must balance these returns with perceived risk, especially if the high EP stems from market skepticism about earnings sustainability. Empirical results show a strong positive relationship between EP ratios and stock prices in Nigerian banks, affirming its significance as a performance metric (Egbunike & Okerekeoti, 2018).

The Retention Ratio (RR)—the proportion of earnings retained by firms rather than paid out as dividends—also influences stock market performance. A higher RR implies reinvestment in operations, which may fuel long-term growth and enhance firm valuation. Oladipupo and Okafor (2023) found a direct link between retention rates and improved stock performance in Nigeria's public companies. Similarly, Uwuigbe et al. (2022) showed that retention ratios significantly affect share prices, indicating that investors view high retention as a sign of growth prospects. Nigerian DMBs with higher retention levels are therefore more likely to experience positive stock price movements due to investor expectations of future profitability.

Conclusion and Recommendations

The dividend policy of listed Deposit Money Banks (DMBs) in Nigeria significantly influences their stock market performance. This policy governs the distribution of profits to shareholders through dividends or retained earnings for reinvestment. Investors often interpret consistent dividend payments as indicators of financial stability and profitability, which enhances investor confidence and attracts more investment, leading to a rise in stock prices. Conversely, reductions or eliminations of dividends may signal financial distress or lower future earnings, potentially resulting in investor pessimism and declining stock prices. Empirical findings reveal that DMBs in Nigeria paying higher dividends generally enjoy higher market valuations, particularly in a volatile and uncertain stock market environment where investors seek quick returns. Thus, a stable and favorable dividend policy helps banks achieve better stock market outcomes. However, a major challenge for these banks lies in balancing dividend payouts with the retention of earnings for future growth. A well-structured dividend policy that meets the needs of both income-seeking and capital-gain-focused investors can enhance long-term performance. Retained earnings, when effectively utilized, allow banks to invest in profitable ventures, improve efficiency, and expand operations, thereby boosting future stock value. Yet, excessive retention without visible growth may cause investor dissatisfaction and weaken market performance.

Developing an effective dividend policy for DMBs requires careful consideration of various factors such as profitability, cash flow, growth potential, and prevailing market and economic conditions. Understanding investor expectations and aligning with macroeconomic realities—like interest rates, inflation, and regulatory policies—is essential. The study shows that Dividend per Share (DPS) does not significantly negatively affect stock performance, whereas Dividend Yield (DY) and Earnings to Price (EP) ratios positively impact it. However, the Retention Ratio (RR) has a significantly negative effect. **Recommendations** include:

i. Boost investor confidence by enhancing asset quality and risk management, and shifting the focus from DPS to Total Shareholder Return (TSR) for a broader view of value.
ii. Maintain consistency in dividend payouts to foster investor trust and long-term investment, while preserving adequate earnings for reinvestment.
iii. Improve profitability through operational efficiency, revenue diversification, and strong risk controls to sustain a high EP ratio.
iv. Address the negative impact of high retention ratios by clearly communicating how retained earnings are used, and by considering increased dividend payouts to meet investors' preference for immediate returns.

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