

**SHAREHOLDERS' WEALTH MAXIMISATION AND DEPOSIT BANKS'
PERFORMANCE IN NIGERIA**

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ABSTRACT

The study examines how the performance of Nigeria's deposit money banks was impacted by shareholders' desire to maximize wealth over the period from 1996 to 2020. The 2020 Statistical Bulletin of the Nigerian Central Bank served as the primary source for secondary data. 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 results 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 significant but positive influence 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 perceived consequences 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
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INTRODUCTION

A study carried out by Nnana and Chiwendu (2019) while responding to this subject, 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 research by 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 boost the wealth of shareholders".

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

$$[r (E-D)/K/K]$$

METHODOLOGY

The research herein considered, utilized the *ex-post-facto* design of the research in carrying out this research. 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 stock price (equity) of

DMBs listed on the Nigerian Stock Exchange was used in the study to represent the market value of DMBs in Nigeria and as the dependent variable; however, dividend payout ratios, retention ratios, dividend yields, and earnings per share were used as explanatory variables to measure dividend policy, as stated 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_i ; 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= Earning Per Shares”. Based on the foregoing, the mathematical representation is modified and stated as: $DVD = f(DPR, RR, DY, EPS)$. The econometric model can be written as: $LnDVD = a_0 + Ln a_1DpR + Ln a_2RR + Ln a_3DY + Ln a_3EPS + \mu$. Elasticity Coefficients for each variable are a_1 through a_3 , where a_0 is the parameter (constant). Ln is the variables' natural logarithm, and μ is the stochastic error term. A measure used to lessen the impact of heteroskedasticity is log transformation, which minimizes the measure by which these variables are judged, reducing a tenfold difference between two values to a twofold difference (Gujarati, 2004).

DATA PRESENTATION AND ANALYSIS

Dividend payout ratios, retention ratios, dividend yields, and earnings per share are used as independent variables to assess deposit money institutions' performance, and are expressed in "appendix 1" of the study. Dividend is used as a proxy for shareholders' wealth maximization and is chosen as the dependent variable. The fundamental characteristics of the data series used in the analysis are described using descriptive statistics. Table 1 displays the descriptive statistics' summary findings.

Table 1: Summary Descriptive Statistics

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

Source: Author's E-Views computation, 9.1

The total number of observations for all the variables was 24. This shows that there are no missing values in any of the series during the time frame under consideration. The median values (or average growth rates) Equity/price of quoted deposit money banks' stock (356416.3), dividend payout ratios (45%), retention ratios (34%), dividend yields (47%) and earnings per share (38%), are the variables. It is safe to state that all of the variables are normally distributed and skewed favorably based on the data from the Jarque-Bera test, which demonstrates that there is no deviation from normality for any of the variables.

Test for Stationarity

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”.

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

In contrast to the other hypothesis in the alternative form for the existence for co-integration among the variables (that is, $r=1$), Table 3 below displays the results of the test and the position of no co-integration as expressed in the null hypotheses among the variables (i.e., $r=0$). The stated hypothesis in the null form of absence of "co-integration failed the test at the 0.05 level of significance" was rejected. However, the null hypothesis that $r=1$ is accepted in contrast to the alternative $r=2$, $r=3$, and $r=4$ indicates that the variables under test have a distinct co-integrating connection. The likelihood ratio from table 3 demonstrates that there is a long-run connection between the dependent and "independent variables" in this situation.

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: 02:35

Sample (adjusted): 1996 2020

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			

"Computation by the Author Using E-Views 9" is the source.

The least squares outputs from Table 4 were used to examine the four hypotheses presented in this study. In contrast to the Johansen test cointegration test, the term for error correction provides us with information on how quickly the predicted model will reach equilibrium based on the short-term fluctuations. The ECM's coefficient, which is -0.67163, indicates that the ECM (-1) is adequately described and that the diagnostic statistics are sound. The fact that the sign is negative indicates that the regressor variables have temporarily adjusted

to the dependent variable. In terms of the models' speed of returning to equilibrium, the ECM term indicates a 62% adjustment.

This indicates that 67% of the disequilibrium that resulted from external shocks or short-term fluctuations in the previous year is now addressed. The DY is non-linear but negative based on the study's findings, however it is significant to the EQP in both the "short and long term" The EPS and DVD exhibit a short- and long-term adversely negligible nonlinearity. As a result, the F statistics demonstrates the entire model's relevance. This conclusion is supported by the observation that the 6.435256 F-statistic exceeds the 0.000000 F-probability. The dependent variable (DVD) is satisfactorily described by the regressors in 62% of cases, according to the coefficient determination (R²) value.

CONCLUSION AND RECOMMENNDATIONS

The results of this study demonstrate how deposit money banks' success in Nigeria is greatly influenced by shareholders' wealth maximization. The aforementioned suggests that banks must take into account the dividend's effective utilization due to its major impact on the value of their overall stock holdings. In order to influence a bank's share price, the numerous elements must be adopted definitively. Always make sure to execute cash dividends, script issues, or bonuses thoughtfully and to strike a healthy balance between what to pay out and what to keep for investments in development and expansion. If the dividend policy is implemented in a lackluster manner, the lack of transparency and accounting fraud may cause shareholders to stop investing in the bank, which will cause the share price of the bank to decline sharply. It is in the banks' best interests to effectively manage their capital structures through the usage of each bank's dividend policy. Adopting the dividend policy would result in profitability, which will guarantee rising growth and the equity share price of DMBs listed 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
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
2918	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