

# Dividend Policy and Investment Return of Listed Deposit Money Banks in Nigeria

Chuka Peter Adibeli<sup>1</sup>, Dr. Gilbert O. Nworie<sup>2</sup>

<sup>1</sup>Accountancy Department, Faculty of Management Sciences in Nnamdi Azikiwe University, Awka, Nigeria  
p.adibeli@unizik.edu.ng

<sup>2</sup>Chairman, Ukoro Odah Holdings, Nigeria  
dulcisgil@gmail.com

**Abstract:** The study examined the effect of dividend policy on investment return of listed deposit money banks in Nigeria. The specific objective of the study was to examine the effect of dividend pay-out ratio, and dividend yield on return on investment of listed deposit money banks in Nigeria. Ex-post facto research design was used in the study. The population of this research study consists of twelve (12) deposit money banks in Nigeria as at 31st December, 2023. Criterion based purposive sampling technique was adapted to select nine (9) banks. Secondary data for this study were collected through the use of financial statements from the sampled banks for a ten year period that covered 2014 to 2023. The hypotheses were tested using the Ordinary Least Squares (OLS) regression. The findings showed that: dividend pay-out ratio has a significant negative effect on return on investment of listed deposit money banks in Nigeria ( $\beta = -0.6930$ ,  $p = 0.0019$ ); dividend yield has a significant positive effect on return on investment of listed deposit money banks in Nigeria ( $\beta = 4.7684$ ,  $p = 0.0000$ ). In conclusion, while the dividend pay-out ratio may signal a more conservative approach to profit distribution, potentially signaling a lack of growth opportunities, the dividend yield serves as a clear indication of the bank's current financial strength and profitability. The study recommends that bank management of listed deposit money banks in Nigeria should consider adopting a more balanced dividend pay-out strategy by retaining a larger portion of earnings to reinvest in growth and expansion projects, which would likely improve long-term profitability and, in turn, increase investor returns.

**Keywords—**Dividend Policy, Investment Return, Dividend Pay-Out Ratio, Dividend Yield, Return on Investment

## 1. INTRODUCTION

Over the years, dividend policy has remained a very vital aspect of corporate finance which has equally gained a considerable amount of attention from researchers, policy makers and business men (Adedokun, Obademi & Shiro, 2023). A number of theories, hypothesis and explanations have in the past been provided with regard to the distribution of income to firm's shareholders after a specific amount of earnings has been retained for the purpose of reinvesting it in the firm (Adebayo & Olusegun, 2021). Some theories posit that dividend payment is irrelevant whereas some others argue for the opposite (Ahmed, Kabir & Ibrahim, 2023). Severally, attempts have been made in the finance profession to develop a simple satisfactory model of dividend policy but no success has been recorded. As early as 1961, Modigliani and Miller propounded their theory which denigrated dividend in the scheme of firm value but Walter's model of 1963 countered their position. Thus, the existing researches, theories and hypotheses in dividend policy and firms earnings have all shown that not only is a general theory of dividend policy elusive, but also that corporate dividend practices vary over time across countries and among firms (Emeka & Ogochukwu, 2021; Ohiaeri, Akinbowale & Ogumeru, 2019). Deposit money banks in Nigeria that design and implement dividend policies that effectively balance the interests of shareholders and the long-term sustainability of the banks have dividend policies that align with best practices, ensuring

that shareholders receive regular and attractive returns on their investments while maintaining sufficient retained earnings for reinvestment and growth. Ideally, such dividend policies would positively influence the investment return of banks by enhancing their reputation, attracting more investors, and fostering confidence among stakeholders, ultimately contributing to the stability and growth of the financial sector. Investment return refers to refers to the financial gain or loss realized from an investment over a specific period, typically expressed as a percentage of the initial investment cost (Sapitri, Hasbi, Nurhikma & Sari, 2024). It encompasses all forms of income generated, including interest, dividends, and capital gains, as well as any losses incurred during the holding period.

Basically, shareholders take a risk by investing in the stock of a firm. The return on such share investment is paid through distribution of dividend. Such dividends paid are cash flows accruing to equity investors in form of return to shareholders on their investment, and the aim is to increase their confidence in the future of the company in which they have invested (Adedokun, Obademi & Shiro, 2023). Through dividend policy, a firms sets out the rationale under which it determines what proportion of net income it will pay in dividends and what it will retain for further investment. Dividend policy of a firm, therefore, sets out the guidelines which the firm will follow in deciding to make dividend payments to its shareholders (Emeka & Ogochukwu, 2021). The primary financial objective of a firm is to maximize the wealth of its shareholders. Dividend payment is a way by which firms

distribute stock return to shareholders as a signal that the welfare of the shareholders is maximized (Emeka & Ogochukwu, 2021).

Shareholders ordinarily view dividends as a means through which firms communicate the idea that the firm is financially strong and equally profitable. Even as investors feel attracted to dividend payment which increase their present return, firms on the other side consider retained earnings as a major internal management source through which corporate growth and investment can be financed. An increase in dividend payment ratio signals to shareholders that there is a sustainable increase in firms expected earnings. This signal influences the price of share since dividend per share, dividend yield and dividend payout ratio jointly offer tangible evidence of the ability of the firm to generate cash and optimize shareholders' value (Ohiaeri, Akinbowale & Ogumeru, 2019). It is the expectation of every shareholders that their investment in shares will produce profits in the form of dividend or capital gains. Investors gain immediately when management decides to pay high dividend. In a case where management decides to re-invest a larger proportion of the firm's retained earnings, it is likely that shareholders will still earn return on stock in the future through capital gains, though investors prefer immediate return on stock (Sulaiman & Migiro, 2015).

More also, as some shareholders need immediate return on stock and so prefers a high dividend payout ratio, there are still other shareholders who would prefer retaining the earnings after tax for the purpose of re-investing for the future and realise capital gains. The above competing interests of various shareholders tell on the dividend policy a firm adopts (Emeka & Ogochukwu, 2021); ultimately, such dividend policy has a level of negative or positive influence on the financial performance or return on investment of the firm. A firm that pays high dividend will be more attractive to investors than a firm which pays no or lower dividend (Bhagmal & Hafinaz, 2019). While making investment decisions, investors examine dividend per share, dividend yield and dividend payout ratio of the firms under review because the price of the firm's share may be influenced by the rate of dividend payment, in the long run. It is predicated upon this backdrop that the present study examines the effect of dividend policy on investment return of listed deposit money banks in Nigeria.

The proportion of what is paid out of the retained earnings and the proportion of what is to be re-invested is usually a decision that is taken by the management of the entity. Normally, shareholders would want to have a higher dividend yield which is an incentive to invest but managers need to consider which dividend policy will lead to maximization of shareholder's wealth (Andabai, 2020). Nevertheless, the fluctuation in the dividend payout ratio, dividend per share and dividend yield in listed deposit money banks sector calls for worry as some firms do not pay dividend at all while some others that pay distribute meager dividend per share. Dividend policies in Nigeria are often inconsistent, poorly structured, or overly influenced by short-term goals, leading to unpredictable dividend payments and insufficient attention

to long-term financial health. Some banks may prioritize high dividend payouts to satisfy shareholder demands, neglecting the need for reinvestment in critical areas such as technological upgrades, risk management, and market expansion. Others may retain too much earnings, leading to shareholder dissatisfaction and a potential decline in stock value. These inconsistencies and misalignments in dividend policy can negatively impact the investment return of these banks, undermining investor confidence and potentially leading to financial instability.

Thus, poorly managed dividend strategies can lead to decreased profitability, reduced capital reserves, and an overall decline in the investment return of deposit money banks in Nigeria. This situation can result in diminished shareholder value, increased vulnerability to financial shocks, and a weakened competitive position in the banking industry. Furthermore, the lack of a coherent and effective dividend policy may erode trust among investors and other stakeholders, ultimately threatening the long-term sustainability and growth prospects of the banking sector.

The extant studies conducted by Ohiaeri, Akinbowale and Ogumeru (2019); Bamidele and Olawale (2018); Simon-Oke and Ologunwa (2016); Sulaiman and Migiro (2015) are poly-sectorial. Adebayo and Olusegun (2021) focused on the Nigerian banking sector; Abu and Adebayo (2017) explored the conglomerate sector while the study carried out by Emeka and Ogochukwu (2021) focused on ICT sector. To the best knowledge of the researcher, there has been no empirical research conducted to examine the effect of dividend policy on investment return of listed deposit money sector in Nigeria has not been conducted. It is in a bid to address this gap that the present study examines the effect of dividend policy on the investment return of listed deposit money banks in Nigeria.

## 1.2 Objective of the Study

The main objective of the study is to examine the effect of dividend policy on investment return of listed deposit money banks in Nigeria. The specific objectives of the study are:

1. To examine the effect of dividend pay-out ratio on return on investment of listed deposit money banks in Nigeria.
2. To determine the effect of dividend yield on return on investment of listed deposit money banks in Nigeria.

## 1.3 Research Hypotheses

- 1)  $H_0$ : Dividend pay-out does not significantly affect return on investment of listed deposit money banks in Nigeria.
- 2)  $H_0$ : Dividend yield has no significant effect on return on investment of listed deposit money banks in Nigeria.

## 2.0 LITERATURE REVIEW

### 2.1 CONCEPTUAL REVIEW

#### 2.1.1 DIVIDEND POLICY

Dividend policy refers to the strategy a company employs to determine the amount and timing of dividends paid to shareholders (Farooq, Ahmed, Khan & Munir, 2024). This

involves deciding how much profit to distribute as dividends and how much to retain for reinvestment. The policy aims to strike a balance between rewarding shareholders and maintaining sufficient capital for growth, considering factors such as profitability, cash flow, growth opportunities, and market expectations (Odum & Asielue, 2024). A well-structured dividend policy reflects a company's financial health and management's confidence in its future performance.

The Dividend Irrelevance Theory, developed by Miller and Modigliani in the 1960s, argues that in a perfect capital market, dividend policy has no impact on a firm's stock price or cost of capital. They contend that shareholders are indifferent between dividends and capital gains, as long as the firm's overall value remains unchanged. However, this theory assumes ideal conditions such as no taxes or transaction costs, making it subject to criticism for neglecting real-world complexities, including taxation. Dividends, as described by Simon-Oke and Ologunwa (2016), are the portion of profits distributed to shareholders. Payments can be made in cash or through additional shares (Abu & Adebayo, 2017). They serve as a cash flow source for shareholders and provide hints into a firm's performance (Nworie, Oduche & Cyril-Nwuche, 2024). While some investors prefer dividends, others prioritize stock price appreciation.

Corporate dividend policy is a significant financial decision, involving earnings allocation between shareholders and reinvestment (Odum & Asielue, 2024). Factors influencing this policy include earnings, tax implications, firm size, and market reactions to dividend changes (Bamidele & Olawale, 2018). Companies carefully plan dividend strategies to align with shareholder preferences and signal confidence to the market (Ohiaeri, Akinbowale & Ogumeru, 2019). Ultimately, dividend policy is pivotal in balancing corporate growth and shareholder satisfaction.

### 2.1.2 DIVIDEND PAYOUT RATIO

The dividend payout ratio is a financial metric that evaluates the proportion of a company's earnings distributed to shareholders as dividends (Ademola, Al-Faryan & Kazeem, 2024). This ratio is calculated by dividing total dividends by net income or earnings per share (EPS). It provides hint into a company's dividend policy and financial strategy. A high payout ratio indicates that a significant portion of profits is returned to shareholders, often reflecting limited reinvestment in the business. Conversely, a low payout ratio suggests the company retains more earnings for growth, expansion, or debt reduction.

According to Emeka and Ogochukwu (2021), the dividend payout ratio shows the percentage of net income allocated to shareholders as dividends versus the portion retained for operational funding. This ratio is a critical indicator of how a company balances shareholder rewards with internal financing needs. The formula for calculating the dividend payout ratio is total dividends divided by the company's net income (Odum & Asielue, 2024).

Omalioko and Okpala (2020) describe dividend payout as a decision regarding the portion of earnings a firm distributes to its shareholders. Firms with high payout ratios prioritize shareholder returns but may limit resources for future growth. In contrast, firms with lower payout ratios retain more earnings, enabling them to finance investment opportunities and achieve higher growth (Adebayo & Olusegun, 2021). Consistent dividend payments can boost investor confidence, maximize shareholder wealth, and enhance the market value of corporate shares.

### 2.1.3 DIVIDEND YIELD

Dividend yield is a financial ratio that indicates how much a company pays out in dividends annually relative to its stock price (Odum & Asielue, 2024). It is calculated by dividing the annual dividend per share by the current market price per share and is expressed as a percentage. This metric is instrumental for investors in assessing the income generated from their investment in a stock, offering hint into the potential returns based on the market value of the shares. A high dividend yield may suggest an attractive return on investment, but it could also signal risks, such as declining stock prices or underlying financial instability.

Ohiaeri, Akinbowale, and Ogumeru (2019) describe dividend yield as a measure of the cash dividends distributed relative to a company's stock price. The formula for dividend yield, which is "Annual Dividend Per Share" divided by "Current Market Value Per Share," reflects the profitability and attractiveness of a stock, particularly for income-focused investors who prioritize consistent cash flows over capital gains.

According to Emeka and Ogochukwu (2021), dividend yield serves as a critical indicator for determining how investments generate returns, either through stock appreciation or cash dividends. Nissim and Ziv (2011) emphasize its relevance to income investors seeking regular cash payouts, while Sorin (2016) highlights that the dividend yield ratio is the inverse of the dividend payout ratio. Whereas the dividend payout ratio measures dividends relative to net income, dividend yield focuses on the relationship between dividends paid and market value per share, providing a complementary perspective on a firm's dividend policy.

### 2.1.4 INVESTMENT RETURN

Investment Return refers to the financial gain or loss realized from an investment over a specific period, typically expressed as a percentage of the initial investment cost (Sapitri, Hasbi, Nurhikma & Sari, 2024). It encompasses various forms of income, such as interest earned from bonds, dividends distributed from stocks, rental income from real estate, and capital gains resulting from the appreciation in the value of an asset. Conversely, it also accounts for any losses incurred due to depreciation in asset value or other financial downturns during the holding period (Aguguo, 2020).

Investment return is a critical metric for assessing the profitability and efficiency of an investment, enabling investors to determine whether an asset has met their financial

objectives or outperformed other potential investments (Edelsten, 2023). By comparing returns across different investment options, individuals and organizations can allocate resources to maximize wealth creation and mitigate risks. For instance, a high return may indicate a successful investment, but it often comes with increased risk, requiring investors to carefully evaluate the trade-off between risk and reward (Aguguom, 2020).

This study measures investment return using Return on Investment (ROI). ROI is a financial metric used to evaluate the profitability or efficiency of an investment relative to its cost (Nworie, Mmadubuobi & Muojekwu, 2023). It is calculated by dividing the net profit (or gain) from the investment by the initial cost of the investment, then multiplying the result by 100 to express it as a percentage. ROI is a key tool for assessing the potential return of various investments, such as stocks, real estate, or business projects, helping investors compare and prioritize opportunities (Setiawan & Rosa, 2023). A higher ROI indicates a more profitable investment, while a lower ROI signals less effective use of capital. However, ROI alone may not account for other factors, such as risk, time horizon, or the opportunity cost of alternative investments, so it should be used in conjunction with other performance metrics for a more comprehensive analysis.

## 2.2 THEORETICAL FRAMEWORK

This study is anchored on Dividend Irrelevance Theory which was introduced by Miller and Modigliani in the early 1960s. This theory asserts that under the assumption of a perfect capital market, a firm's dividend policy is inconsequential (Miller & Modigliani, 1961). The theory proposes that in such a market, dividend policy does not affect the firm's stock price or cost of capital, as shareholder wealth remains unaffected by the choice between dividends and capital gains (Oloyede, Olaoeye & Oluwaleye, 2018). According to this perspective, the wealth of shareholders depends on the firm's investment decisions and the income generated by those investments, not on how that income is distributed. Consequently, in the theoretical framework of Miller and Modigliani, dividends are deemed irrelevant.

The theory further posits that a firm's value is determined by its basic earning power and investment choices, regardless of its income distribution strategy (Al-Malkawi, Rafferty & Pillai, 2010). Specifically, they argue that, given a firm's investment policy, the dividend payout policy has no impact on either the current share price or the total shareholder returns. Investors evaluate a company's worth based on the capitalized value of its future earnings, unaffected by its dividend distribution practices or policies. Miller and Modigliani also suggest that, from an investor's perspective, all dividend policies are equivalent, as investors can create "homemade" dividends by tailoring their portfolios to suit their preferences. For instance, an investor desiring income can sell a portion of their shares, effectively replicating the outcome of receiving a dividend. This perspective hinges on several idealized assumptions, including a perfect capital

market, rational investor behavior, no taxes, and the absence of transaction costs (Al-Malkawi, Rafferty & Pillai, 2010). However, these assumptions are often criticized for their lack of realism in practical financial markets.

The Dividend Irrelevance Theory further posits that whether a company distributes profits as dividends or retains them for reinvestment does not influence its overall value. The theory's core argument is that in a perfect market, dividend decisions are neutral with respect to a firm's stock price, cost of capital, or investor returns. Instead, the firm's value is fundamentally tied to its investment strategies, which determine its capacity for generating future earnings and achieving growth. The Dividend Irrelevance Theory is directly relevant to the study of the *effect of dividend policy on investment return on deposit money banks in Nigeria* as it provides a foundational framework to analyze whether dividend policy impacts shareholder returns in this context. According to the theory, in a perfect market, dividend policy neither affects the value of a firm nor the returns to investors, as shareholders can adjust their portfolios to create "homemade" dividends if needed. However, the Nigerian banking sector operates in a market with imperfections such as taxes, transaction costs, and varying investor behaviors, which may deviate from the theory's assumptions. By applying this theory, the study investigates whether dividend policy in Nigerian deposit money banks influences investment returns in practice, thereby testing the theory's validity in a less-than-perfect market environment.

## 2.3 EMPIRICAL REVIEW

Odum and Asielue (2024) conducted a study to examine the impact of dividend policy on the growth of deposit money banks in Nigeria. Using regression analysis performed with E-View 19, their findings revealed a significant influence of variables such as dividend per share, dividend payout ratio, and dividend yield on the growth of these banks. Similarly, Njoku and Lee (2024) investigated the relationship between dividend policy, firm performance, and value in the Korean market, particularly focusing on Chaebol ownership structures. By applying advanced regression models on a dataset of 5,478 observations from the Korean Composite Stock Price Index, they identified a positive impact of cash dividends on firm performance, with contrasting effects between Chaebol and non-Chaebol firms.

In Kenya, Sogomi, Otiende, and Sasaka (2024) evaluated the effect of dividend policy on the wealth of shareholders in commercial banks listed on the Nairobi Securities Exchange. Employing analysis techniques such as ANOVA, multiple regression, and Pearson correlation, the study found that various dividend policies, including fixed-rate, fluctuating payout ratios, hybrid policies, residual payment strategies, and stock dividends, had significant positive effects on shareholder wealth. Additionally, Oundo, Atandi, and Singoro (2024) explored the impact of dividend payout on the financial performance of companies listed on the NSE in Kenya. Using descriptive and inferential statistics alongside cointegration analysis, their results indicated that dividend

payout rates positively and significantly influenced financial performance.

In Nigeria, Ukpong and Ukpe (2023) assessed how dividend policy affects firm performance. They applied descriptive and correlational statistics as well as logistic regression analysis and discovered a positive relationship between return on assets and the form of dividend payment, while negative relationships were observed with earnings per share and the timing of dividend payment. Another study by Okoh et al. (2023) investigated the effect of dividend policy on the performance of Nigerian banks, utilizing panel regression analysis with the E-views software. The findings demonstrated a significant positive impact of variables such as deposits, assets, and dividends on bank performance.

Adegbie et al. (2023) examined the influence of dividend policy on the market performance of listed insurance firms in Nigeria through pooled ordinary least squares regression. Their findings showed that while dividend payout negatively but insignificantly affected market price per share (MSP), dividend yield and dividend per share exhibited positive and significant impacts on MSP. Meanwhile, Mustapha and Abdullahi (2023) analyzed the effect of dividend policy on the financial performance of listed deposit money banks in Nigeria. Using regression analysis, they reported a significant positive relationship between dividend per share and financial performance, whereas firm size had a negative correlation, and leverage exhibited a positive association.

Another study by Ibrahim and Kurfi (2023) explored the relationship between dividend policy and firm performance in Nigerian manufacturing firms using STATA 17 for descriptive and inferential statistics. The study found no significant correlation between dividend payout ratio, dividend yield, dividend coverage ratio, and return on equity. Adedokun et al. (2023) investigated the effect of dividend policy on share price dynamics in Nigeria. Employing pooled ordinary least squares regression with fixed and random effects models, they reported that dividend per share and earnings per share inversely and insignificantly affected share prices, while profitability had a positive but insignificant impact.

Ahmed et al. (2023) explored how dividend policy correlates with share prices in Nigerian deposit money banks, emphasizing the role of inflation moderation. Using hierarchical moderated multiple regression analysis, the study revealed that share prices were negatively affected by the dividend price ratio, payout ratio, firm age, and growth. In Malaysia, Hanafi et al. (2023) assessed the effects of dividend policies on the share prices of companies listed on the FTSE Bursa Malaysia 100 index. Using panel data regression, they discovered that dividend payout had an insignificant effect on share prices, while dividend yield had a negative and significant effect. Additionally, company size and return on invested capital were found to have significant impacts.

Koleosho et al. (2022) focused on the effect of dividend policy on share price volatility in Nigerian Exchange-listed companies. Employing an ex-post facto research design and EGARCH for volatility measurement, they found a significant

relationship between dividend policy and share price volatility. The payout ratio significantly influenced volatility, while dividend yield and per share had no significant effects. Similarly, Bamidele and Olawale (2018) examined the relationship between dividend policy and the market value of common stocks on the Nigeria Stock Exchange. Their pooled, random, and fixed regression analyses showed that payout ratio had a positive but insignificant impact, whereas earnings per share and firm size significantly and positively affected stock prices.

Several studies have explored the impact of dividend policy on company performance and stock prices, particularly in Nigeria and Sri Lanka. Akinleye and Ademiloye (2018) examined the effect of dividend policy on the performance of quoted manufacturing firms in Nigeria using panel data estimation techniques, including OLS, fixed effect, and random effect models. Their findings indicated that while dividend per share had a positive but insignificant impact on firm performance, the dividend payout ratio had a negative and insignificant effect.

Similarly, Abu and Adebayo (2017) focused on the relationship between dividend policy and the share price of listed conglomerate firms in Nigeria. Using multiple regression analysis, their study revealed that dividend yield positively and significantly influenced share prices, while earnings yield had a negative and significant impact. However, the dividend payout ratio was found to have a negative but insignificant effect on share prices. In other research, Simon-Oke and Ologunwa (2016) evaluated the impact of dividend policy on corporate performance in Nigeria through OLS multiple regression analysis. They concluded that dividend policy was influenced by variables such as return on investment, earnings per share, and dividend per share, which collectively impacted corporate performance.

### 3.0 METHODOLOGY

This research utilized an ex-post facto design, which is well-suited for analyzing relationships between past events. This design was chosen to explore the effect of dividend policy on the investment returns of listed deposit money banks in Nigeria. The focus on events occurring from 2014 to 2023 made this research design particularly appropriate. The population of the study comprises twelve deposit money banks in Nigeria as of December 31, 2023: Access Bank Plc, Eco Bank Plc, Fidelity Bank Plc, First Bank Plc, Guaranty Trust Bank Plc, First City Monument Bank Plc, Stanbic IBTC Plc, Sterling Bank Plc, United Bank for Africa Plc, Wema Bank Plc, Zenith International Plc, and Unity Bank Plc. A purposive sampling technique based on specific criteria was applied to select nine banks, whose financial statements were available through the Nigerian Exchange Group for the period from 2014 to 2023. These selected banks are Access Bank Plc, Fidelity Bank Plc, Eco Bank Plc, Guaranty Trust Bank Plc, Unity Bank Plc, Wema Bank Plc, United Bank for Africa Plc, Zenith International Plc, and Sterling Bank Plc.

Secondary data, specifically the financial statements of the chosen banks, were utilized for this study. The data collection process ensured thoroughness by focusing on banks that remained operational throughout the 2014-2023 period. The ten-year span was deemed sufficient to gather adequate data for analysis. The use of secondary data is deemed appropriate as it is more reliable due to the external audits conducted on the annual reports of these institutions. The variables measured in this study are provided in Table 3.1 below.

**Table 3.2 Measurement of Variables**

| Variable                | Type        | Acronym | Measurement                                                   |
|-------------------------|-------------|---------|---------------------------------------------------------------|
| 1. Return on investment | Dependent   | ROI     | Net Profit/(Share price X Outstanding number of share)        |
| 2. Dividend Yield       | Independent | DYD     | $\frac{\text{Dividend Per Share}}{\text{Share price}}$        |
| 3. Dividend Pay-out     | Independent | DPO     | $\frac{\text{Dividend Per Share}}{\text{Earnings Per Share}}$ |

Source: Authors' Compilation, 2024

A regression equation was formulated to examine the hypothesized effect of dividend policy on the investment return of listed deposit money banks in Nigeria. Dividend policy was represented by Dividend Payout Ratio, and Dividend Yield. The equation is expressed as follows:

$$ROI = f(DPO, DYD, \dots)$$

.....eqn 1

To test  $H_{01}$ ,  $H_{02}$ , the study estimated the following multiple regression equation:

$$ROI_{it} = \alpha_0 + \beta_1 DPO_{it} + \beta_2 DYD_{it} + \mu_{it}$$

.....eqn 2

Where, ROI = Return on Investment for company i in period t

DPO = Dividend Pay-out for company i in period t

DYD = Dividend Yield for company i period t

$\alpha_0$  = Constant (intercept)

$\beta_{1-2}$  = Coefficients of the independent variables

$\mu$  = Error term

The data analysis for this study employed two primary techniques. First, descriptive statistics were applied to summarize the dataset, including measures such as the mean, maximum, minimum, and standard deviation, to offer hints into the central tendencies and variability within the data. Second, the hypotheses were tested using the Ordinary Least Squares (OLS) regression method, which was employed to examine the relationship between the variables and evaluate the impact of dividend policy (represented by Dividend Payout Ratio and Dividend Yield) on the investment returns of listed deposit money banks in Nigeria.

To interpret the results, the null hypothesis is rejected if the calculated p-value is less than the significance level, typically set at 5%. On the other hand, if the p-value exceeds the 5% significance level, the null hypothesis is not rejected.

#### 4.0 DATA ANALYSIS

##### 4.1 DESCRIPTIVE ANALYSIS

**Table 4.1 Descriptive Analysis**

|                                | ROI       | DPO      | DYD      |
|--------------------------------|-----------|----------|----------|
| <i>Mean</i>                    | 0.235870  | 0.248905 | 0.062204 |
| <i>Median</i>                  | 0.229812  | 0.225153 | 0.062588 |
| <i>Maximum</i>                 | 1.514611  | 0.959343 | 0.190476 |
| <i>Minimum</i>                 | -2.407925 | 0.000000 | 0.000000 |
| <i>Std. Dev.</i>               | 0.351362  | 0.213609 | 0.049333 |
| <i>Skewness</i>                | -4.215909 | 0.623321 | 0.216475 |
| <i>Kurtosis</i>                | 38.62890  | 2.908060 | 2.105513 |
| <i>Jarque-Bera Probability</i> | 5026.929  | 5.859644 | 3.703318 |
| <i>Sum</i>                     | 21.22829  | 22.40147 | 5.598385 |
| <i>Sum Sq. Dev.</i>            | 10.98750  | 4.060973 | 0.216599 |
| <i>Observations</i>            | 90        | 90       | 90       |

Source: Eviews 10 (2024)

Table 4.1 shows that the **Return on Investment (ROI)** has a mean value of 0.235870, indicating that, on average, the listed deposit money banks in Nigeria generate a return of approximately 23.6% relative to their share prices and outstanding shares. The ROI exhibits significant variability, as reflected by a standard deviation of 0.351362, suggesting a notable dispersion around the mean. The maximum value of 1.514611 and the minimum of -2.407925 highlight a wide range of performance among the banks, with some achieving significant positive returns while others recorded negative returns. The skewness of -4.215909 indicates a strong leftward skew, meaning the distribution has a long tail of negative values, likely influenced by outliers. Additionally, the kurtosis value of 38.62890, much higher than the normal threshold of 3, suggests the data distribution is highly peaked with heavy tails. The Jarque-Bera probability of 0.000000 confirms that the ROI data significantly deviate from normal distribution.

For **Dividend Payout Ratio (DPO)**, the mean is 0.248905, showing that, on average, the sampled banks distribute approximately 24.9% of their earnings as dividends. The standard deviation of 0.213609 indicates moderate variability in payout ratios across the banks. The maximum DPO value of 0.959343 suggests that some banks allocate nearly all their earnings as dividends, while a minimum of 0.000000 reflects instances where no dividends were paid. The skewness of 0.623321 indicates a slight positive skew, meaning the data distribution has a longer right tail. With a kurtosis value of 2.908060, the DPO distribution is close to normal but slightly platykurtic, meaning it has lighter tails compared to a normal distribution. The Jarque-Bera probability of 0.053407 suggests the data are not significantly different from normal distribution at the 5% significance level.

The **Dividend Yield (DYD)** has a mean value of 0.062204, implying that, on average, shareholders of the sampled banks receive a dividend yield of approximately 6.2% relative to their share prices. The standard deviation of 0.049333 indicates that the variability in dividend yield across the banks is relatively low. The maximum DYD value of 0.190476 demonstrates that the highest yield is around 19%, while the minimum of 0.000000 reflects cases where no dividends were distributed. The skewness of 0.216475 shows a slight positive skew, indicating that the distribution has a marginally longer right tail. The kurtosis value of 2.105513, below the threshold of 3, suggests the DYD distribution is somewhat flat or platykurtic. Lastly, the Jarque-Bera probability of 0.156977 suggests that the DYD data do not significantly deviate from a normal distribution.

#### 4.1.2 MODEL DIAGNOSTICS

##### 4.1.2.1 MULTICOLLINEARITY TEST

The essence of the multicollinearity test is to examine the degree of correlation among independent variables in the regression model, ensuring that the variables are not highly collinear, which could distort the regression estimates.

**Table 4.2 Variance Inflation Factors**

Date: 11/24/24 Time: 00:07

Sample: 1 90

Included observations: 90

| Variable | Coefficient<br>Variance | Uncentered<br>VIF | Centered<br>VIF |
|----------|-------------------------|-------------------|-----------------|
| DPO      | 0.046848                | 4.648713          | 1.958976        |
| DYD      | 0.878343                | 5.108576          | 1.958976        |
| C        | 0.002985                | 2.766453          | NA              |

Source: Eviews 10 (2024)

Table 4.2 presents the Variance Inflation Factor (VIF) values for the independent variables, Dividend Payout Ratio (DPO) and Dividend Yield (DYD). Both variables have VIF values of 1.958976, which are well below the threshold of 10, indicating the absence of significant multicollinearity. This suggests that the independent variables are not highly correlated and can reliably contribute to explaining the dependent variable (Return on Investment) in the model.

##### 4.1.2.2 TEST OF AUTOCORRELATION

The Breusch-Godfrey Serial Correlation LM Test is used to check for the presence of autocorrelation in the residuals of the regression model, which can affect the reliability of the estimates.

**Table 4.3 Breusch-Godfrey Serial Correlation  
LM Test:**

|               |          |                     |        |
|---------------|----------|---------------------|--------|
| F-statistic   | 0.484564 | Prob. F(2,85)       | 0.6177 |
| Obs*R-squared | 1.014567 | Prob. Chi-Square(2) | 0.6021 |

Source: Eviews 10 (2024)

Table 4.3 shows a probability value of 0.6177, which is greater than the commonly used significance level of 0.05. This indicates that there is no significant evidence of autocorrelation in the residuals. The absence of serial correlation ensures the validity of the regression results, confirming that the model's residuals are independent over time.

##### 4.1.2.3 TEST OF AUTOCORRELATION

The Breusch-Pagan-Godfrey Test is conducted to detect heteroskedasticity, which occurs when the variance of the residuals is not constant, potentially leading to inefficient estimates.

**Table 4.4 Heteroskedasticity Test: Breusch-Pagan-Godfrey**

|                     |          |                     |
|---------------------|----------|---------------------|
| F-statistic         | 0.872828 | Prob. F(2,87)       |
| Obs*R-squared       | 1.770329 | Prob. Chi-Square(2) |
| Scaled explained SS | 41.59648 | Prob. Chi-Square(2) |

Source: Eviews 10 (2024)

In Table 4.4, the probability value is 0.4214, exceeding the 0.05 threshold. This result indicates that there is no significant heteroskedasticity in the model. Consequently, the regression estimates are efficient and reliable, as the assumption of homoscedasticity is satisfied.

##### 4.1.2.4 TEST OF LINEARITY

The Ramsey RESET Test is used to assess whether the regression model is correctly specified and if the relationship between the dependent and independent variables is linear.

**Table 4.5 Ramsey RESET Test**

Equation: UNTITLED

Specification: ROI DPO DYD C

Omitted Variables: Powers of fitted values from 2 to 3

|                  | Value    | df      | Probability |
|------------------|----------|---------|-------------|
| F-statistic      | 1.991598 | (2, 85) | 0.1428      |
| Likelihood ratio | 4.121667 | 2       | 0.1273      |

Source: Eviews 10 (2024)

Table 4.5 reports a probability value of 0.1428, which is greater than 0.05. This suggests that there is no significant evidence of model misspecification or nonlinearity in the regression model. Hence, the assumption of linearity is upheld, and the model is appropriately specified to explain the relationship between dividend policy and return on investment.

##### 4.1.2.5 TEST OF NORMALITY

The essence of the normality test is to determine whether the residuals or dataset follow a normal distribution, which is a key assumption in many statistical analyses and regression models. Normality ensures that the statistical tests, such as hypothesis testing and confidence intervals, produce valid and

reliable results. A dataset that is normally distributed allows for accurate parameter estimation and enhances the generalizability of the findings.

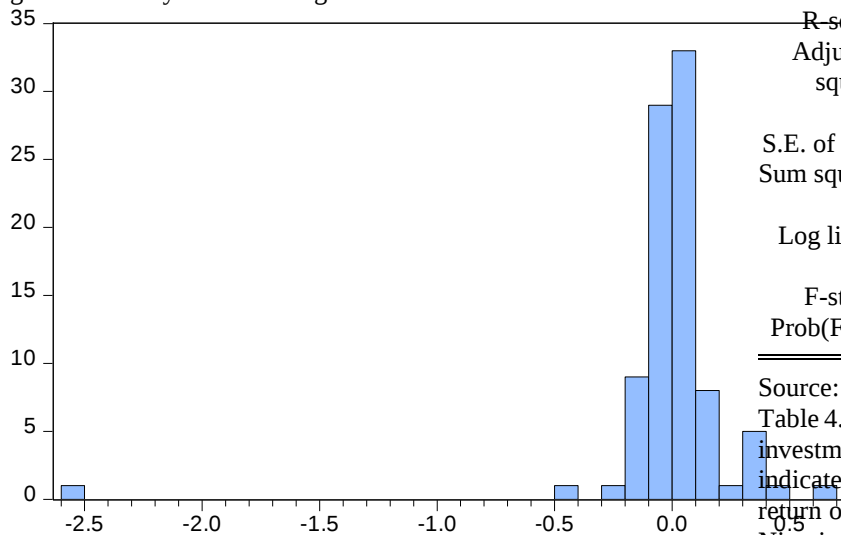


Figure 1 Normality Test

Source: Eviews 10 (2024)

As shown in Figure 1 above, the Jarque-Bera probability of 0.000000 confirms that the ROI data significantly deviate from normal distribution. While the normality test revealed that the residuals are not normally distributed, this limitation can be overlooked due to the robustness of the Ordinary Least Squares (OLS) regression in large samples. OLS estimators remain unbiased and consistent even when the normality assumption is violated, as long as other key assumptions, such as linearity, homoscedasticity, and the absence of multicollinearity and autocorrelation, are satisfied. Furthermore, non-normality of residuals often has minimal impact on the validity of hypothesis testing when the sample size is sufficiently large (above 90 observations), due to the Central Limit Theorem, which ensures that the sampling distribution of the coefficients approximates normality. Hence, the results of the regression analysis can still be considered reliable and interpretable.

#### 4.2 TEST OF HYPOTHESES

Ordinary Least Square regression was used in testing the hypotheses of the study.

**Table 4.6 OLS Regression**

Dependent Variable: ROI

Method: Least Squares

Date: 11/24/24 Time: 00:06

Sample: 1 90

Included observations: 90

| Variable | Coefficient | Std. Error | t-Statistic | Prob.  |
|----------|-------------|------------|-------------|--------|
| DPO      | -0.693045   | 0.216444   | -3.201960   | 0.0019 |
| DYD      | 4.768384    | 0.937199   | 5.087908    | 0.0000 |

C 0.111758 0.054637 2.045475 0.0438

|                    |           |                       |          |
|--------------------|-----------|-----------------------|----------|
| R-squared          | 0.231025  | Mean dependent var    | 0.235870 |
| Adjusted R-squared | 0.219348  | Series: Residuals     |          |
| S.E. of regression | 0.311635  | Observations          | 90       |
| Sum squared resid  | 8.449109  | S.D. dependent var    | 0.351362 |
| Log likelihood     | -21.24578 | Akaike info criterion | 0.538795 |
| F-statistic        | 13.06884  | Schwarz criterion     | 0.622122 |
| Prob(F-statistic)  | 0.000011  | Hannan-Quinn          | 0.572397 |
| Skewness           | -5.974332 | Durbin-Watson         | 2.081199 |
| Kurtosis           | 51.28970  | Stat                  |          |

Table 4.6 below shows the nexus between dividend policy and investment returns. The Adjusted R-squared value of 0.2133 indicates that approximately 21.33% of the variability in the return on investment (ROI) of listed deposit money banks in Nigeria is explained by the dividend pay-out ratio (DPO) and dividend yield (DYD). Although this indicates a moderate explanatory power, the model is statistically significant overall, as shown by the F-statistic's probability value ( $p = 0.000011$ ), which is less than the 5% significance level. The Durbin-Watson statistic of 2.081199 suggests that there is no significant autocorrelation in the residuals, supporting the reliability of the regression results.

#### TEST OF HYPOTHESIS I

1)  $H_0$ : Dividend pay-out does not significantly affect return on investment of listed deposit money banks in Nigeria.

The coefficient of DPO is -0.6930, indicating that for every unit increase in the dividend pay-out ratio, ROI decreases by 0.6930 units, holding other variables constant. This negative marginal effect suggests that a higher dividend pay-out ratio reduces the ROI of the banks. Furthermore, the p-value of 0.0019 is less than the 5% significance level, confirming that the effect of DPO on ROI is statistically significant. This implies that dividend pay-out decisions have a measurable and adverse effect on the investment returns of the banks. Thus, Dividend pay-out ratio has a significant negative effect on return on investment of listed deposit money banks in Nigeria ( $\beta = -0.6930$ ,  $p = 0.0019$ ).

#### TEST OF HYPOTHESIS II

2)  $H_0$ : Dividend yield has no significant effect on return on investment of listed deposit money banks in Nigeria.

The coefficient of DYD is 4.7684, meaning that a unit increase in the dividend yield leads to a 4.7684-unit increase in ROI, all else being equal. This positive marginal effect indicates that higher dividend yields enhance the ROI of the banks. With a p-value of 0.0000, which is below the 5% significance threshold, the effect of DYD on ROI is statistically significant. This underscores that dividend yield decisions play a crucial and favorable role in determining the investment returns of the banks. Thus, Dividend yield has a

significant positive effect on return on investment of listed deposit money banks in Nigeria ( $\beta = 4.7684$ ,  $p = 0.0000$ ).

#### 4.3 DISCUSSION OF FINDINGS

The result indicating that the dividend pay-out ratio has a significant negative effect on return on investment (ROI) suggests that when listed deposit money banks in Nigeria distribute a higher proportion of their earnings as dividends, the profitability (ROI) of these banks tends to decrease. This could be because higher dividend pay-outs reduce the amount of retained earnings available for reinvestment in profitable projects or capital expenditures, limiting the banks' growth potential. Moreover, paying higher dividends might indicate that the bank is not utilizing its profits for expanding operations or improving its services, which could, in turn, affect its ROI negatively. The capital that could have been used to fuel future profitability is instead distributed to shareholders, leading to reduced long-term financial returns. Empirical studies support this finding in varying contexts. For instance, Odum and Asielue (2024) identified a significant relationship between dividend payout ratio and the growth of deposit money banks in Nigeria, noting that excessively high pay-outs can undermine growth opportunities. Similarly, Ukpong and Ukpe (2023) found a negative relationship between the timing of dividend payments and earnings per share, suggesting that when banks focus more on distributing dividends than reinvesting for growth, it negatively impacts their overall performance. However, studies like that of Okoh et al. (2023) observed a positive impact of dividend payout on Nigerian banks' performance, possibly due to the market's confidence in stable dividend distributions. Adegbe et al. (2023) found a negative but insignificant relationship between dividend payout and market price per share, highlighting that dividend policies do not always correlate positively with market performance.

The finding that dividend yield has a significant positive effect on ROI means that higher dividend yields are associated with higher returns on investment for Nigerian deposit money banks. This could be explained by the fact that a high dividend yield often signals financial health and stability, which can boost investor confidence. For investors, a higher yield typically provides a more immediate return on their investment, thus increasing ROI. Furthermore, a high dividend yield can attract more investors, pushing up the market value of the bank's shares and increasing its ability to raise capital, which could improve its financial position and profitability. This finding is consistent with several studies. For example, Njoku and Lee (2024) found a positive relationship between dividend payout and firm performance, with dividend payouts playing a significant role in boosting firm value. Sogomi et al. (2024) also observed that the dividend yield had a positive effect on shareholders' wealth, supporting the view that a high yield attracts investors, leading to greater financial performance. Furthermore, Okoh et al. (2023) found a positive effect of dividend variables on bank performance in Nigeria, which aligns with the view that higher dividends signal robust performance. In contrast,

Ibrahim and Kurfi (2023) reported no significant relationship between dividend policy and firm performance in Nigerian manufacturing firms, indicating that the positive relationship found in banking institutions might not be generalized across all sectors.

#### 5.0 CONCLUSION AND RECOMMENDATION

The findings of this study reveal significant hints into the nexus between dividend policy and investment return for listed deposit money banks in Nigeria. The negative relationship between dividend pay-out ratio and return on investment suggests that when banks allocate a larger proportion of their profits as dividends, it could hinder their ability to reinvest in growth opportunities. By distributing substantial earnings to shareholders, banks may reduce the available capital for funding expansion, capital expenditures, or other revenue-generating activities. This may, in turn, limit their capacity to generate higher future returns, leading to a diminished perception of long-term profitability among investors. Consequently, banks with high dividend pay-out ratios might be seen as less capable of sustaining growth, which could reduce their appeal to potential investors looking for higher ROI.

The positive effect of dividend yield on return on investment has important implications for investor behavior and market perception. Investors tend to favor banks that offer higher dividend yields, as these yields provide an immediate return on their investments. A higher dividend yield can signal to investors that a bank is financially stable and capable of maintaining consistent profitability, enhancing investor confidence. This increased confidence can lead to higher demand for the bank's shares, driving up its stock price and improving the overall return on investment. In this context, banks with higher dividend yields are likely to attract more investors, boosting their market value and reinforcing the relationship between dividends and profitability. In conclusion, while the dividend pay-out ratio may signal a more conservative approach to profit distribution, potentially signaling a lack of growth opportunities, the dividend yield serves as a clear indication of the bank's current financial strength and profitability. The positive effect of dividend yield on ROI implies that market participants may prioritize immediate returns over long-term growth potential, highlighting the importance of dividend yield as a key factor in investment decision-making.

Based on the negative relationship between dividend pay-out ratio and return on investment, it is recommended that bank management of listed deposit money banks in Nigeria consider adopting a more balanced dividend pay-out strategy by retaining a larger portion of earnings to reinvest in growth and expansion projects, which would likely improve long-term profitability and, in turn, increase investor returns.

Given the positive relationship between dividend yield and return on investment, it is recommended that investors in listed deposit money banks in Nigeria should focus on selecting banks with higher dividend yields. Such banks are likely to offer more attractive immediate returns, reflecting

their financial stability and investor appeal, which can result in better ROI for their portfolios.

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