Dividend Behaviour of Deposit Money Banks: The Case of Nigeria

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Abstract

The driving force behind this study is the fact that dividend policy formulation is a subject of controversy from the theoretical point of view as well as the inherent problems that firms are practically confronted with in arriving at a particular dividend policy that would meet the expectations of the shareholders vis-à-vis their own interests. Therefore, it becomes imperative to look at the Dividend behaviours of some selected Nigerian commercial banks in relation to their earnings and market values. This study took it course from two theoretical perspectives, namely dividend is relevant and irrelevant views in relation to market values of companies. The population of this study consisted of the current 22 licensed Deposit Money banks in Nigeria. However, 6 banks were randomly selected from 12 of the 22 commercial banks currently on the listing of Nigeria Stock Exchange. Secondary data were collected for the purpose of this study. They were obtained from the website of Nigeria Stock Exchange and annual financial statements of the selected banks. Pearson Product-Moment Correlation Coefficient was employed as the statistical tool to test the hypotheses. The study found out that there is a significant relationship between the earnings and dividend policies of Nigerian commercial banks, while there is also a significant relationship between their dividend policies and market values. The implications of these findings are that there would be always pressures on the banks for better performance as well as the need to pay dividends. The study therefore recommended that; Nigerian commercial banks should ensure they always achieved improved financial performance yearly to enable them meet up current year dividend payments as well as build up retained earnings that could be used to offset dividends payments in bad years. By so doing they could achieve stable dividend policy. Similarly, Nigerian commercial banks should reduce their reliance on internal source of finance in order to have adequate liquidity capacity to meet up dividend payments as at when due and not just declared dividends and no payments.

Keywords: Dividend behavior, Dividend policy, Deposit Money Banks, Nigeria

INTRODUCTION

Nigerian Deposit Money Banks just like other commercial companies owe duty of fiduciary responsibility to their owners (shareholders). Their shareholders have some expectations on their investment in them as it is typical of all shareholders of companies. One of the fundamental things that a shareholder expects from his investment is to enjoy commensurate earnings. This means that a shareholder expects his company to generate earnings that are adequate to compensate the risk and sacrifice that are attributable to his investment. Meeting this expectation of the shareholders is of paramount importance to companies, which Nigerian commercial banks are not an exception. This is on the premise that an average shareholder would withdraw his investment from a company that is found wanting in terms of earnings generation.

Moreover, it is one thing for a company to generate net earnings for the shareholders, but it is another thing for the company to resolve how the earnings should be administered in the interest of shareholders. Companies usually transfer their net earnings to their shareholders through payment of dividends. However, a company must indeed take a decision whether it must distribute all its earnings to the shareholders, or retains all the earnings, or give portion of the earnings to the shareholders and retain the balance. This decision-making process is what is known as dividend decision. And this culminated in what is known as dividend policy. Simply put, dividend policy refers to the percentage of earnings that a company pays in cash or otherwise to its shareholders. The percentage is known as "dividend-payout ratio'. In that regard, Watson and Head (1998) highlighted that traditionally, corporate finance function consisted of two obvious areas of decision making, namely investment and finance decisions. Under the investment decision, investment projects are evaluated, and profitable projects selected. On the other

hand, finance decision involves the source where finance could be raised to execute the selected profitable projects. They went further to explain that dividend decision, which entails the amount of earnings a firm could retain and the amount it would pay to the shareholders, has a closely bearing with both investment and financing decisions. To clarify this relationship, they gave an example that a company with few profitable investment projects could return more funds to the shareholders through increased dividends. Besides, if a company with many profitable investment projects pays to its shareholders high dividends, then the company must seek for finance from external sources in order to execute the selected profitable investment projects. This above analysis implies that, if it is a company's policy to execute all profitable investment projects by using retained earnings, then the investment decision could affect the dividend-payout ratio. In addition, high dividends in the face of many profitable investment projects, would force such company to raise finance from without.

Furthermore, dividend policy has a peculiar complexity and the complexity is akin to the proverbial "two sides of a coin". It is important to mention here that the phrase in the bracket in the above quotation is that of the investigator. In view of the above reality, many writers in the field of finance have agreed that "dividend decision" had become one of the fundamental functions in modern corporate finance. From the foregoing, dividend policy could communicate the performance of a company to its shareholders as well as any other interested parties, most especially potential investors. This means dividend policy can influence the supply and demand for the shares of a given company. Invariably, the share price of a given company could be influenced by its dividend policy. The fact that dividend decision is in the mainstream of finance functions in corporate organisations is no more in doubt. However, the dividend decision seems to be a difficult issue to many companies, if not all. In that regard, Arnold (1998) pointed out that managers have a range of forces to contend with in formulating their dividend policies. He said there are forces that pull managers towards paying out either a high proportion of earnings or a low one to the shareholders. In addition, some forces pull them (managers) to provide a stable and consistent dividend to the shareholders. Above all other forces want the managers to vary dividend from year to year.

Given the above position, it is most convenient for one to concludes that dividend policy formulation is not an easy responsibility for firms because of the role dividend policy plays. Therefore, it is assumed that Nigerian commercial banks do face challenges in taking dividend decision. The challenges are because of magnitude of interplay between the views and expectations of shareholders, other providers of capital and the interest of the firm in dividend policy formulation. Given the importance of dividend policy, attempt to understand the dividend behaviours of Nigerian commercial banks becomes so desirable to any curious mind Thus, it is this fact that stimulates the interest to carry out the study, titled; Dividend Behaviour of Deposit Money Banks: The Case of Nigeria. The major hypothesis underlying this stuidy includes;

HO1: Dividends of Nigerian commercial banks have no significant relationship with their earnings
HO2: Market values of Nigerian commercial banks have no significant relationship with their dividends.

LITERATURE REVIEW

Conceptual Clarifications

Dividend Policy

Dividend policy, according to Van Horne (1998), is the third major decision that a firm do make during its existence. He defined dividend policy as the percentage of earnings that is a paid in cash to its shareholders. This percentage of earnings that is paid to shareholders as dividends is usually refer to as the payout ratio, while the percentage of earnings that the firm retained for its use is known as retention ratio. Ross et al (1995), observed in the following way the relationship between a firm and its shareholders as regard earnings; at first glance, it may seem obvious that a firm would always want to give as much as possible have to its shareholders by paying dividends. It might equally seem obvious, however, that a firm can always invest the money for its shareholders instead of paying it out. The heart

of the dividend policy question is just this: should the firm payout money to its shareholders, or should the firm take that money and invest it for its shareholders. Pandey (2000), gave the fact that the implication of paying dividends is that it involves the outflow of cash from a firm. Similarly, Van Horne (1998) explained that the payout ratio affects the total amount of internal finance available to a firm. This means that the higher the payout ratio, the higher the reduction in the amount of internal finance available to a firm vice versa. In view of this fact, he concluded that dividends decision should be considered in relation to the overall financing of a firm. This implies that dividend decision should not be isolated from investment and financing decisions of a firm. Similarly, Brealey (1992) threw more light on the concept of dividend policy when he posited that a company's dividend decisions are often mixed up with other financing and investment decisions. Some companies finance capital expenditure largely by borrowing, thus releasing cash for dividends. In this case the higher dividend is merely a by-product of the borrowing decision. Other companies pay low dividends because management is optimistic about the company's future and wishes to retain earnings for expansion. In this case, the dividend is a by-product of the management's capital budgeting decision… The precise question we should ask, then, is: "what is the effect of a change in cash dividends, given the firm's capital budgeting and borrowing decisions?" If we fix the firm's investment outlays, borrowing and operating cash flow, there is only one source of additional dividend payments: a stock issue. For this reason, I define dividend policy as the trade-off between retaining earnings on the one hand and paying out cash and issuing new shares on the other.

From the foregoing, we would like to define dividend policy simply as the benefit that a firm think is convenient to give to its shareholders from earnings in a given accounting year without jeopardizing its operations. Also, the fundamental question that needs to be asked is that: does the dividend policy of a firm have anything to do with its value? In other words, can the value of a firm be affected by changes in a firm's dividend policy? We cannot on our own here provide definite answer to the question above. This is because there are a lot of controversies surrounding dividend policy as regard its relationship with the value of a firm. Consequently, we would resort to make an overview of dividend theories, so that we should be guided before making any pronouncement.

Empirical and Theoretical Discussion

There are two schools of thought in respect to dividend policy. One School of thought believes that dividend policy of a firm has nothing to do with its value, while the other school of thought believes that dividend policy is an active variable in the determination of the value of a firm. Modigliani and Miller (M-M) (1961), as pointed out by Waston and Head (1998), argued that the value of a firm is a function of the earnings it generates and such earnings depend on the investment policy of the firm. They added that investment decisions that take care of the future profitability of a firm are the only determinants of its market value. From the point of view of M-M, the value of a firm is independent of the level of its dividend-payout ratio. They went further to argue that rational investors always make the choice that maximises their utilities and therefore, they are indifferent to receive capital gains or dividends on their shares. As Brigham (1989) highlighted, M-M based their position on some assumptions which include absence of taxes, no stock floating or transactions cost, capital structure has no effect on the cost of capital, managers and investors have the same information about the firm's prospects, that the distribution of earnings into dividends and retained earnings has no effect on the cost of capital and a firm's capital budgeting policy is independent of its dividend policy. From the point of view of M-M, there is nothing like optimal dividend policy if a firm operates under a perfect capital market. Therefore, a firm can afford to give or not to give any portion of its earnings as dividends. In explaining this position of M-M, Pandey (2000) gave three hypothetical situations about a firm operating under a perfect capital market, namely:

(i) The firm has sufficient cash to pay dividends.
(ii) The firm does not have sufficient cash to pay dividends, and therefore, it issues new shares to finance the payment of dividends.
(iii) The firm does not pay dividends, but shareholder needs money.

In the first situation, he posited that, if the firm pays dividend, the value of the firm is reduced by the amount of cash given to the shareholders. Therefore, the cash the shareholders benefited has led to a proportionate reduction in their claims against the firm. There is no gain or loss in the transaction; this is because it is just a transfer of wealth from one pocket to another pocket of the shareholders. Thus, the value of the firm remains unaffected. Under the second situation, he explained that when the firm financed dividends through new issues of shares, two situations would emerge. First, the existing shareholders get cash in the form of dividends, but they suffer proportionate loss in terms of reduction in their claims against the assets of the firm. On the other hand, the new shareholders gave out cash to the firm in exchange for new shares at what is termed "fair price." The fair price is the price per share before dividends net of dividend per share. The summary of this situation is that the existing shareholders gave part of their claim in the form of new shares, to the new shareholders in exchange for cash. There is no gain or loss in this situation, thus the value of the firm remains the same at the end of the transactions. The third situation, which is a situation whereby the firm does not pay dividends, but a shareholder needs cash, he stated that the shareholder has an option to create a "home made dividend." This will be possible for the shareholder by selling a part of his or her shares at the prevailing price at the capital market in order to obtain cash. There would be a reduction in the number of shares owned by the shareholder. This is because he or she has transferred some of his or her shares to a new shareholder in exchange for cash. Consequently, the value of the firm is not affected by the transaction.

However, Lintner (1963) and Gordon (1963), as mentioned by Brigham (1989), strongly argued against the position of M-M. They contended that the cost of capital increases as the dividend-payout ratio is reduced, because the investors are less certain about the realisation of capital gains that retained earnings will produce. Whereas investors are more certain about the current dividends they are to receive. Walter (1963), justified the fear of investors about the issue of reinvesting earnings to produce capital gains this way by suggesting that; the one thing that shareholders cannot do through their purchase and sale transactions is negate the consequences of investment decision by management. Against this somewhat rational perception of the investors, Walter was of the same opinion with Linter and Gordon, that investors prefer dividends to capital gains. Similarly, Graham and Dodd (1934), as quoted in Pandey (2000), gave a strong argument in favour of the position that investors prefer dividends to capital gains when they emphasized that; the typical investor would most certainly prefer to have his dividend today and let tomorrow take care of itself. No instances are on record in which the withholding of dividends for the sake of future profits has been hailed with such enthusiasm as to advance the price of stock. The direct opposite has been invariably true. Furthermore, Walter (1963), as pointed out by Pandey (2000), developed a model that produces the importance of dividend policy in relation to the value of the firm. The model shows the importance of relationship between the firm's rate of return (r) and it's cost of capital (k) in determining the dividend policy that will lead to the best maximisation of the shareholders' wealth. The model is based on the following assumptions:

(i) The firm depends solely on retained earnings to finance all its investment.
(ii) The firm enjoys constant rate of returns (r) and cost of capital (k).
(iii) The firm practice either one hundred percent payments or retention.
(iv) The firm maintains constant earnings per share (EPS) and dividends.
(v) The firm has a large or infinite life span.

Given his (Walter's) Model, the market price per share of the firm is given as

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

where: P = Market price per share
DIV = Dividend per share

EPS = Earnings per share
r = Firm's rate of return (average)
k = Firm's cost of capital or capitalisation rate

Given the above formula, Walter arrived at some conclusions as follows:

(i) For a growth firm that its internal rate of return (r) is normally more than its opportunity cost of capital (k), the best dividend policy for the firm in order to maximise the value of its share is to retain all its earnings for internal investment. This is because the market value per share (p) increases as the payment ratio declines.

(ii) For a normal firm which its rate of return (r) is always equal to its opportunity cost of capital (k), the firm can employ any dividend policy and the market value per share of the firm will remained unchanged at any given payment ratio.

(iii) For a decline firm, which its rate of return is always less than its opportunity cost of capital, the best dividend policy for the firm is to pay all its earnings as dividend, this is because the value of the firm usually increases as the dividend payout ratio rises.

Similarly, Gordan (1962) as explained by Pandey (2000), developed his own model to prove the relevance of dividend policy to the firm. His model is based on the following assumptions:

(i) The firm is an all-equity firm, which means that it does not use debt as part of its financing.
(ii) No external financing, therefore examined earnings is solely used to finance any expansion.
(iii) The firm enjoys constant rate of return.
(iv) The firm enjoys constant cost of capital.
(v) The firm enjoys perpetual stream of earnings.
(vi) Corporate tax does not exist.
(vii) Constant retention by the firm.
(viii) Cost of capital is always greater than growth rate.

Given his model, the market price per share of the firm is given as: -

$$P_0 = \frac{EPS_1(1-b)}{k-br}$$

Where: EPS_1 = Expected earnings for say period one
b = Dividend policy (i.e., retention ratio)
r = Internal profitability on rate of return
k = Cost of capital

Given the above formular for his model, Gordon arrived at the same conclusions with Walter about the dividend policies of growth firm, normal firm and decline firm. It is important to point out that many of the assumptions of these two erudite scholars of finance in the pursuit of their models were not without shortcomings in relation to the world reality. In other words, many of the underlying assumptions of their respective models are not obtainable in practice. Therefore, one cannot derive much logical conclusions about the effect of dividend policy on the value of the firm from the works of these two scholars. The M-M christened the argument of Lintner and Gordon as a "bird in-the-hand" fallacy. Anyway, which of these two theories are we to believe? Brigham (1989) portrayed that several empirical tests have been carried out to ascertain the validity of these theories, however, contradictory findings in respect to each of the theories have made conclusive pronouncement impossible. On the part of the researcher, it is important to state here that the scholarly prowess of M – M as regard their argument about dividend policy is well appreciated. However, the fact that the underlying assumptions upon which their argument is based run contrary to what is obtained in the real-world situation has put a big question mark on their argument. Thus, given the real-world situation, it is compelling to buy the idea that dividend policy

affects the value of a firm. However, it is believed that the extent to which dividend policy may affect the value of a firm is still an open question. This is because there are other variables other than dividend policy that equally have influence on the value of a firm.

Dividend policy is considered important because of the information dividends convey to the investors. Pandey (2000) gave the view that dividends are considered relevant because of their informational value. He opined that a firm might make pronouncements about its expected earnings growth to give assurance to the shareholders as well as winning their confidence. However, he added, the pronouncements would be taken with all seriousness by shareholders if they are following with dividends. Solomon (1963), as quoted by Pandey (2000), posited that in an uncertain world in which verbal statements can be ignored or misinterpreted, dividend action does provide a clear-cut means of 'making a statement' that speaks louder than a thousand words. Furthermore, Brealey and Myers (1996) opined that the fact that dividends anticipate future earnings, that is the prospects of a firm, dividend cuts would be interpreted by investors as a bad omen, while dividend increases are considered by them as a good omen. Consequently, announcement of dividends cuts world affects the market price of a firm's shares, negatively. On the other hand, announcement of increases in dividends tend to have positive impact on the market value of a firm's shares. However, Woolridge and Ghosh (1992), argued that dividends cuts may be perceived as management's lose of confidence in the future earnings of the company. Investors may react negatively towards investing in the company. But they further stressed that dividend cuts can be good news in the sense that it may means more funds need to be invested in the company to bring about future prosperity. Pandey (2000) gave the opinion that not all changes in dividend policy have much impact on the value of a firm. He said the extent of message convey by dividend action depends upon the established dividend policy of the firm. A change in a long-established dividend policy would have much impact on the market price of a firm, while a policy of changing dividends with every cyclical change in earnings world have less impact on the market price of a firm. This is because the investors understand very well the informational values of the two situations. By and large, we can infer from the above analysis that the informational value of dividend is maximised through a stable dividend policy over years.

METHODOLOGY

This research is descriptive in nature, because focused on what are behaviours of dividend policies of Nigerian commercial banks vis-à-vis their earnings and market values. The population of the study consist of 22 licensed commercial banks (excluding Jaiz bank) in Nigeria as at date. Random sampling technique was employed in selecting the banks used in this study. This means that the banks elected were done on random basis to avoid bias in our selection through a dip of the luck system. The sample size of the study is 6 Nigerian commercial banks. The 6 selected banks were from 12 Nigerian commercial banks quoted on the Nigeria Stock Exchange. The banks selected for the study include Access Bank, First City Monument Bank, First Bank, Guaranty Trust Bank, United Bank for Africa and Zenith Bank. None of the unquoted 10 of the commercial banks was selected in order to avoid share price determination problem.

Only secondary data was used for this study. The data used include the earnings, dividends and market values of the selected banks. The share values of the banks were obtained from the Nigeria Stock Exchange while their earnings and dividends were obtained from the annual financial statements of the banks. The methods of data analysis employed in this study include descriptive statistics and parametric statistics. Descriptive statistics involves the use of table, frequency, percentage and mean. Under the parametric statistics, we used the Pearson product-moment correlation coefficient (r) in statistical tests. The formula for "r" is:

$$r = \frac{N \sum XY - \sum X \sum Y}{\sqrt{N \sum X^2 - \left(\sum X\right)^2}\sqrt{N \sum Y^2 - \left(\sum Y\right)^2}}$$

Where: N= the number of pairs of variables X and Y.

X= this refers to the respective values of the Independent variable.

Y= this refers to the respective values of the Dependent variable.

$\sum$ = This refers to sum of.

The formula above is used to obtain the r computed. The table value of r_{α} would be obtain from the significant value of the correlation coefficient Table, given a Degree of Freedom (DOF) and an earlier chosen level of significance. The DOF is always given as N-2 (i.e., the number of pairs of variables X and Y minus 2). The level of significance refers to the maximum degree of error that a researcher is willing to tolerate in taking decision that is based on statistical test. The level of significance is usually denoted by alpha (i.e., α), the first letter of the Greek alphabet. For the purpose of this study, 1% or 0.01 is chosen as our level of significance (α). This means that we strongly believe that we anticipated 1% chance of rejecting the null hypothesis (Ho:) instead of accepting it. In other words, our maximum error of accepting alternative hypothesis (H_1:) instead of null hypothesis (Ho:) is 1%. Impliedly, we are saying that we are 99% confident that a right decision will be made in respect of each statistical test. Any chosen level of confidence is usually known as confidence interval.

RESULT AND DISCUSSION

Test of Hypotheses

Two hypotheses were tested during the study. The hypotheses are stated as follow. In respect to the first hypothesis, the null (H_o) stated that there is no significant relationship between the earnings and dividends of Nigerian commercial banks, while the alternative (H_1) stated that there is a significant relationship between the earnings and dividends of Nigerian commercial banks. As to hypothesis two, the null (H_o) stated that there is no significant relationship between the dividends and market values of Nigerian commercial banks, while the alternative (H_1) stated that there is a significant relationship between the dividends and market value of Nigerian commercial banks.

Test of Hypothesis One

COMPUTATION TO TEST TEST OF HYPOTHESIS 1

YR	EPS X	DPS Y	X^2	Y^2	XY
2011	4.13	3.4	17.06	11.56	14.04
2012	12.97	5.5	168.22	30.25	71.34
2013	11.96	5.95	143.04	35.40	71.16
2014	13.27	4.55	176.09	20.70	60.38
2015	11.77	4.77	138.53	22.75	56.14
2016	14.44	5.74	208.51	32.95	82.89
2017	17.35	7.25	301.02	52.56	125.79
2018	20.56	7.1	422.71	50.41	145.98
2019	21.74	7.57	472.63	57.30	164.57
2020	24.09	4.5	580.33	20.25	108.41
	152.28	56.33	2628.15	334.14	900.69

Source: NSE & Annual reports of the bank

$$r = \frac{N\Sigma XY - \Sigma X\Sigma Y}{\sqrt{[N\Sigma X^2 - (\Sigma X)^2][N\Sigma Y^2 - (\Sigma Y)^2]}}$$

$$= \frac{(10 \times 900.69) - (152.28 \times 56.33)}{\sqrt{[(10 \times 2628.15) - 23189.20][10 \times 334.14) - 3173.07]}}$$

$$= \frac{9006.9 - 8577.93}{\sqrt{[(26281.5 - 23189.20)][(3341.4 - 3173.07]}}$$

$$= \frac{428.97}{\sqrt{3092.3 \times 168.33}}$$

$$= \frac{428.97}{\sqrt{520526.9}}$$

$$= \sqrt{0.000824}$$

$$r = 0.0287$$

Given the information that:

The Degree of Freedom (DF) = N - 2

= 10 - 2

= 8

and the level of significance (i.e., α) = 0.01,

the table value of **r = 0.764592**.

Interpretation of Result

Since the value of r computed (i.e., 0.0287) is less than the table value of r (i.e., 0.764592) then a significant correlation has been established. Therefore, we reject the null hypothesis and accept the alternative hypothesis, which says that the dividends of Nigerian commercial banks have significant relationship with their earnings.

Test of Hypothesis Two

COMPUTATION TO TEST TEST OF HYPOTHESIS 2

YR	DPS X	MPS Y	X^2	Y^2	XY
2011	3.4	45.26	11.56	2048.47	153.88
2012	5.5	72.99	30.25	5327.54	401.45
2013	5.95	91.13	35.40	8304.68	542.22
2014	4.55	64.98	20.70	4222.40	295.66
2015	4.77	46.69	22.75	2179.96	222.71
2016	5.74	54.86	32.95	3009.62	314.90
2017	7.25	97.42	52.56	9490.66	706.30
2018	7.1	81.84	50.41	6697.79	581.06
2019	7.57	73.45	57.30	5394.90	556.02
2020	4.5	84.73	20.25	7179.17	381.29
	56.33	**713.4**	**334.14**	**53855.18**	**4155.48**

Source: NSE & Annual reports of the bank

$$r = \sqrt{\frac{N\sum XY - \sum X \sum Y}{[N\sum X^2 - (\sum X)^2][N\sum Y^2 - (\sum Y)^2]}}$$

$$= \sqrt{\frac{(10 \times 4155.48) - (56.33 \times 713.35)}{[(10 \times 334.14) - 3173.07][10 \times 53855.18) - 508868.22]}}$$

$$= \sqrt{\frac{41554.8 - 40183.01}{[(3341.4 - 3173.07)][(538551.8 - 508868.22]}}$$

$$= \sqrt{\frac{1371.79}{168.33 \times 29683.58}}$$

$$= \sqrt{\frac{1371.79}{4996637}}$$

$$= \sqrt{0.00027}$$

$$r = 0.0166$$

Given the information that:

The Degree of Freedom (DF) = N - 2

= 10 - 2

= 8

and the level of significance (i.e., α) = 0.01,

the table value of **r = 0.764592**.

Interpretation of Result

Since the value of r computed (i.e., 0.0166) is less than the table value of r (i.e., 0.764592) then a significant correlation has been established. Therefore, we reject the null hypothesis and accept the alternative hypothesis, which says that the market values of Nigerian commercial banks have significant relationship with their dividends. From the result, dividend decision should be seeing as a critical finance function in the Nigerian banking industry.

Discussion of Findinds

The researcher discovered that there is a positive significant relationship between dividend policies and earnings of Nigerian commercial banks. This means that the Nigeria banks have ma king industry might be practicing fluctuating dividend policy in their annual dividend decision making. By implication, dividends might often be paid from current earnings alone and there may be no effort to smoothen their dividend payments in order to achieve stable dividend policy. Furthermore, we established there also that

there is a positive significant relationship between the market values and dividends of Nigerian commercial banks. This means that appreciation in their market values could be highly influenced by their dividend policies. This means poor dividend decision by Nigerian commercial banks could lead to poor or downward market values their shares. These realities could put pressures on banks. Given the foregoing, the following recommendations are being put forward.

i. Nigerian commercial banks should ensure they always achieved improved financial performance yearly to enable them meet up current year dividend payments as well as build up retained earnings that could be used to offset dividends payments in bad years. By so doing they could achieve stable dividend policy.

ii. Nigerian commercial banks should reduce their reliance on internal source of finance in order to have adequate liquidity capacity to meet up dividend payments as at when due and not just declared dividends and no payments.

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