

# Dividend Policy and Investment Decision on Deposit Money Banks in Nigeria

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## Article history

## Abstract

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**KEYWORDS:** Dividend policy, dividend per share, dividend yield, retained earnings, investment decision, share price, deposit money banks, Nigeria.

*This study examined the effect of dividend policy on investment decisions in deposit money banks in Nigeria. The study specifically investigated the influence of dividend per share (DPS), dividend yield (DY), and retained earnings (RE) on share price (SP), which was used as a proxy for investment decision. An ex post facto research design was adopted, and secondary data were obtained from the annual reports and financial statements of six purposively selected deposit money banks in Nigeria covering the period 2016–2020. The study employed descriptive statistics, Pearson correlation analysis, Variance Inflation Factor (VIF), and Ordinary Least Squares (OLS) regression analysis using STATA version 13. The findings revealed that dividend per share has a positive and significant effect on share price ( $\beta = 7.10$ ,  $p < 0.01$ ), indicating that increased dividend payments enhance investor confidence and market valuation. Dividend yield was found to have a significant negative effect on share price ( $\beta = -24.41$ ,  $p < 0.05$ ), suggesting that higher dividend yields may be associated with lower market valuation. The results further showed that retained earnings have a positive and significant effect on share price ( $\beta = 1604.67$ ,  $p < 0.01$ ), implying that investors value banks that retain earnings for future growth and investment opportunities. The regression results indicated that the explanatory variables jointly accounted for 58% of the variation in share price. The study concludes that dividend policy significantly influences investment decisions in Nigerian deposit money banks. It recommends that bank management maintain a stable dividend payment policy while ensuring adequate retention of earnings to support future expansion, enhance shareholder value, and strengthen investor confidence.*

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## 1 INTRODUCTION

Corporate financial management revolves around three fundamental decisions: investment, financing, and dividend policy decisions. Dividend policy is one of such matters that continues to be a hot topic in corporate finance due to its direct effect on the wealth of the shareholders, the value of the firm, and its future growth prospects (Adamu, 2018). Dividend policy is the determination of the number of dividends that will be distributed to the shareholders and the amount that will be kept for reinvestment in the business. Therefore, dividend policies affect the return to the shareholders as well as the financing capability and investment opportunities of the company (Abdullahi et al. 2020).

The debate as to the dividend policy has generated a lot of interest among both academics and practitioners, as it has raised a lot of controversy regarding the effect of the dividend policy on the performance of firms and investment behavior. In general, shareholders like to receive regular dividend payments as an immediate result of investing, while managers like to retain a part of the earnings to be used in the future to finance other projects and decrease reliance

on external financing (Arni & Wihandaru, 2021). Retained earnings are one of the major internal sources of finance, which boost the equity of a firm and its growth ability. As a result, companies are always looking for the best possible dividend policy that will optimize both the short-term and long-term benefits for shareholders. Regulatory environment, tax system and corporate governance issues are the reasons why dividend practices differ in various countries (DeAngelo et al., 2004).

In other developed countries, for example, the policy of dividend taxation has shaped investor preferences for capital gains instead of dividend income. Likewise, other events such as the COVID-19 pandemic caused many companies and regulators to rethink dividend distribution policies, with the aim of maintaining liquidity and financial stability (Bryan, 2021). In Nigeria, the dividend payments are governed by the Companies and Allied Matters Act (CAMA) which only allows dividend payments from distributable profits and on the basis that the firm's financial obligations can be met. In essence, this regulatory framework highlights the importance of responsible dividend policies to protect both shareholders' interests and corporate sustainability. Although dividends can be an incentive for investors, an excessive dividend payment can lead to less internal funds needed to grow the company, invest, and expand operations (Umar & Ali, 2016).

Thus, companies need to keep an optimal mix between paying dividends and retaining earnings. Another important task of corporate financial management is investment. These decisions are based on expending financial resources on projects and assets that will produce returns in the future. The aim of investment decision is to maximize the wealth of the shareholders by choosing investment opportunities to generate profit while taking care of the risk associated with the investment (Uwuigbe et al., 2012). There are a number of economic, financial and market factors that impact on investment decisions and this impact the long-term performance and viability of organizations (Thair, 2017). Although there has been much empirical study on the issue, there is still no clear consensus on how dividend policy and investment policy are related. Some studies contain evidence that dividend payments act as an encouraging signal that boosts investor confidence and hence firm value, while others claim that high dividend payments limit investment opportunities by limiting funds available for reinvestment. The unresolved debate is very relevant in the Nigerian banking sector, where the Deposit Money Banks (DMBs) have a very regulated and competitive environment and needed to carefully balance the expectations of their shareholders and the needs of their business expansion.

This study investigates the effect of dividend policy on investment decisions of Deposit Money Banks in Nigeria from 2019 to 2023, as the banking industry is of strategic importance because of its dividend decisions. Specifically, the study examines the effect of Dividend per Share (DPS), Dividend Yield (DY), and Retained Earnings (RE) on the share price (which is a proxy for the decision of investment). The null hypothesis of the study is that DPS, DY, and RE do not have a significant impact on the share prices of Deposit Money Banks in Nigeria. The study is important because it adds empirical evidence to the existing literature to the effect of dividend policy on investor behavior and market valuation in the Nigerian banking sector. The results will help bank managers formulate dividend policies that will be able to strike a balance between returns to shareholders and future needs of the business. The insights gained from the research will also help investors make informed decisions about investing opportunities, and regulators and policymakers can use the results to encourage best practices in dividend payments to foster financial stability and sustainable growth in the banking sector.

## **2 LITERATURE REVIEW**

### **2.1 Concept of Dividend Policy**

Dividend policy refers to the decision taken by an organization to distribute part or all of its profit to its shareholders in the form of a dividend or to reinvest a fraction of its profit back into the business (Orajekwe & Okegbe, 2020). It is the practice usually adopted by management of firms in making dividend payout decisions. Adamu (2018) sees dividend policy as the practice that management follows in making dividend payout decisions of an organization. It is how much should be given as dividend and the residual to retain for further investment. Agrawal and Jayaraman (2004) affirmed that dividend policy affects a firm's profit base when the value of a firm or company is a determinant of its dividend payments. Nwude (2003) defines dividend policy as the guiding principle for determining the portion of a company's net profit after taxes to be paid out to the residual shareholders as dividends during a particular financial year; the purpose of a dividend policy is to maximize shareholders' wealth, which is dependent on both current

dividends and capital gains. Emekekwe (2005) affirmed that the essence of the dividend policy is to determine what portion of a firm's earnings will be paid out as dividends or held back as retained earnings. Retained earnings are one of the important sources of financing for firms' projects. Niharika and Sarika (2015) argued that dividend policy has to do with financial policies concerning paying cash dividends now or delaying until a later date to appreciate. Whether to give out dividends now, how much, is mainly based on the company's income (excess cash) and subjective by the company's long-term earning power.

## **2.2 Dividend Per Share**

Dividend per share is one financial ratio to measure the amount of current dividend attributable to a unit of ordinary shares in issue in a company. In this regard, dividend per share shows the actual returns that will be received or were received by the ordinary shareholders on a unit of shares (Akinleye & Ademiloye, 2018). Dividend per share is the aggregate profit an organization pays out, over 12 months, separated by the aggregate number of remarkable shares. An organization uses this technique to impart benefits to its shareholders. DPS can show how beneficial an organization is over a financial period (Nagendra et. al. 2018). Omaliko and Onyeogubalu (2021) asserted that dividend per share is the amount of dividend a stockholder receives for each share of stock held. It can be calculated by taking the total amount of dividends paid and dividing it by the total shares outstanding.

## **2.3 Dividend Yield**

Idewe and Murad (2019) defined dividend yield as the ratio for assigning a value to a firm that measures its current share price relative to its per-share earnings. Irtaz et al. (2018) opined that high dividend yield is linked to a long-term and positive abnormal return. Furthermore, Rampershad and DeVilliers (2018) posited that dividend yield is an estimate of the dividend-only return of a stock investment. Similarly, Ohiaeriet (2019) opined that the dividend yield of a stock signifies how much a company pays as a dividend on its stock price. Tahir et. al. (2015) argued that the dividend yield depends on the dividend policy of the firm and the market price.

The dividend yield is used by investors to show how their investment in stock is generating either cash flows in the form of dividends or increases in asset value by stock appreciation (Nissim & Ziv, 2011). According to Sorin (2016), dividend yield expressed as a percentage is a financial ratio that shows how much a company pays out in dividends each year relative to its stock price.

## **2.4 Retained Earnings**

Retained earnings comprise the accumulation of the total earnings a firm has generated over its history to date, less accumulated dividend distributions (Ray et. al. 2017). They further argued that retained earnings increase as the firm generates and books earnings, and decrease as the firm books losses or declares dividends. A corporation cannot create earnings through trading in its own capital stock, so treasury stock transactions never increase retained earnings.

## **2.5 Investment Decision**

According to Martono and Agus (2005), an investment is a fund that is invested by a company in an asset with the hope to earn in the future. Meanwhile, according to Myers (1977), an investment decision is made between owned assets and investment options in the future with a positive value, so that the investment decision can be interpreted as a decision to allocate funds sourced from outside the company in the form of investment. In measuring investment decisions, this study used share price as a proxy for ascertaining investment decisions as used by Thair (2017).

## **2.2 Theoretical Review**

The Signaling Theory is used to underpin this study. The theory's relevance to this work can be traced back to the fact that it allows for dividends to be converted into investments. Also, considering the link it has with the work as well as how it virtually captures the variables of interest, this research is based on the signaling theory as used by Ebire et. al. (2018).

### **2.2.1 Signaling Theory**

The theory was propounded by Modigliani and Miller (1961), who argued that dividends may have a signaling effect. Proponents of this theory posit that dividends have a signaling effect and investors or potential investors forecast the profit of the company, which in fact is influenced by the rate of dividends. Firms have to distribute dividends among shareholders, and high dividend payments are considered a positive sign of profitability by shareholders. The payment

of dividends has a signaling effect as dividend payment gives information about the company to the market. Based on dividend announcements, investors, shareholders, and potential investors predict the position of the company in the context of profitability, and when there is an increase in dividend payments, it is a good sign for the firm, as it increases its goodwill and its reputation in the minds of customers, and the share price increases.

### **2.2.2 Dividend Irrelevancy Theory**

Dividend Irrelevance Theory states that dividend policy does not affect the value of the firm. M&M argues that a firm's investment decision is the determinant of its value. As such, payment of dividends to shareholders has no effect (Olang et. al. 2015). Miller and Modigliani (1961) explained that dividend policy is irrelevant as far as the value of the firm is concerned, especially in a perfect market situation where the flow of information and investment is constant. Miller and Modigliani's (1961) supported the dividend irrelevance theory on the assumption that the number of dividends (dividend payout ratio) which is given to the firm's shareholders is usually equal to or greater than free cash flow, which is generated by a fixed investment policy, and an optimum investment policy does not affect shareholders' wealth (Salih 2010; Ajikaiye 2013).

According to this theory, dividend policy is only affected by the amount of external financing that is needed to finance future projects. It means that any amount that is given to shareholders as a dividend (dividend per share) represents the amount of loss of capital (Salih, 2010). Also, state investment policy is responsible for the firm's future profits, not the dividend policy the firm follows (Miller & Modigliani, 1961). As such, this theory concludes that the value of the firm is dependent on the firm's current and future free cash flow and that the amount or level of dividends payout ratio to be paid or paid has no effect on the value of the firm since firms usually maximize their value through investment (Deeptee&Rosan, 2009).

### **2.2.3 Agency Theory**

The agency theory was propounded by Jensen and Meckling (1976). The theory is based on the assumption that the firm is a collection of groups of individuals with conflicting interests and self-seeking motives. They posit that the agency relationship is a contract under which one or more persons referred to as the principal engage another person referred to as the agent to perform some service on their behalf, which involves delegating some decision-making authority to the agent. The management may conduct actions that are not in the best interest of the shareholders. Such conflicts lead to increased agency costs. In such cases, firms will prefer to increase their dividends and reduce agency costs by distributing the free cash flow.

## **2.3 Empirical Review**

Richard, Mesiet, and Rufina (2022) examined the determining factors of dividend policy of the regulated Tanzanian commercial banks, covering the period from 2009 to 2018. The variables under study include dividend policy, firm size, liquidity, profitability, and leverage. Data were collected from the audited financial statements, yearly reports, and proceedings from Annual General Meetings of the regulated commercial banks. The study examines six (6) commercial banks in Tanzania. For inferential analysis, fixed and random effect panel data methods were employed. An ideal model was determined by using the Hausman Test. Results revealed that while liquidity has a negative yet minor effect on dividend pay-out of commercial banks in Tanzania, profitability and leverage revealed a positive and significant effect on the dividend pay-out. Furthermore, firm size determines dividend payout ratio since investors perceive that big banks making profits have a greater chance to pay high dividends compared to small firms. This makes people invest in the banks, expecting higher dividend yields in the future. The study findings will help the directors and management teams of the banking sector to arrive at an appropriate dividend policy. Moreover, the findings are useful to guide investors' decisions. This research paper contributes to the commercial banks' dividend policy body of knowledge. It also covers the gap in the prevailing literature by concentrating on the issue of commercial banks in emerging markets, specifically Tanzania.

Muhammad (2021) examined whether dividend payout, profitability, tax rate, and size influence earnings management of Nigerian listed deposit money banks. The population consists of the fourteen Nigerian listed deposit money banks as at 31st December, 2019, making it a census sampling. The design used for the study is an ex-post facto method; as such, the non-survey design is adopted to actualize the research objectives. Secondary source of data collection was used, and the data were extracted from the annual reports and accounts of the banks for the period of ten years (2010-2019). STATA was employed as the tool of data analysis. Findings revealed that dividend payout, size, profitability,

and tax rate influence the earnings management of deposit banks. Based on the findings, the study concludes that banks can manipulate profit in order to pay less tax and then pay dividends despite their liquidity problems and the existence of huge nonperforming loans. The study recommends the sustainability of the CBN policy on liquidity position and thresholds regarding the payment of dividends.

Muniru and Zuyyanu (2021) analyzed the impact of dividend policy and asset structure on listed commercial banks in Nigeria. The study quantitatively examined how dividend policy and asset structure significantly influence firm value on the Nigerian Stock Exchange. The research used secondary data from the Annual Reports and Financial Statements of selected banks in Nigeria. Information was gathered over five years from the Nigerian Stock Exchange Facts book and individual company accounts (2015, 2016, 2017, 2018, and 2019). The study consists of three (3) major variables: dividend policy, firms' intrinsic value, and asset structure. Corporate performance indicators such as dividend yield and market price-to-book value were used to measure and compare firm value. The study found that consistent dividend payments significantly influence bank performance in the securities market, and that asset structure and value influence the share value of companies in Nigeria. The study finally recommends that potential investors in stocks and shares engage the services of an investment analyst when making a decision to buy shares. This will aid investors in making sound investment decisions. Furthermore, investors need to determine their primary objective, whether maximizing profit or optimizing shareholders' wealth.

Morrison, Samuel, and Grace (2021) examined the effect of dividend policy on shareholders' wealth. Secondary data were used, and the population of the study is ten (10) manufacturing companies for a period of ten (10) years from 2008 to 2017. The variables used for the study are share price, dividend yield, dividend per share, and dividend payout ratio. The result of the multiple regression analysis conducted revealed that dividend policy had a significant effect on market price per share; dividend yield exerted a significant negative effect on share price, dividend per share had a significant positive effect on share price, while dividend payout ratio negatively but insignificantly influenced market share price. The study recommended that managers should ensure that an optimal decision is attained in the choice of the portion of distributable profits to be given as returns on shareholders' investment, as this is germane in attaining its wealth maximization objective.

Omaliko and Onyeogubalu (2021) investigated the impact of Dividend Policy on the share price of Firms Listed on the ICT Sector of the Nigerian Stock Exchange. To determine the relationship between dividend policy and share price of firms, dividend policy key proxy variables were used in the study, namely, Dividend Payout (DPO), Dividend Per Share (DPS), and Dividend Yield (DY), while Share Price (SP), on the other hand, was measured using Market Price of Shares (MPS). Three hypotheses were formulated to guide the investigation, and the statistical test of parameter estimates was conducted using the OLS Model operated with STATA 15. Ex Post Facto Design was adopted, and data for the study were obtained from the Nigerian Stock Exchange Factbook and Annual Reports and Accounts of listed ICT firms in Nigeria spanning from 2016 to 2020. The findings generally indicate that Dividend Payout, Dividend Per Share & Dividend Yield have exerted a significant and positive impact on a firm's share price at 1% significant level. Based on this, the study concludes that dividend policy is capable of influencing firms' share prices in Nigeria. By this implication, the study supports the relevant theories of dividend policy reviewed in this study, as irrelevant theories of dividends do not hold in the case of Nigeria. The study recommends, among others, that firms willing to maximize share price should consistently increase their dividend payment, as this sends a signal to the investors about the firm's market performance and financial health.

### **3 RESEARCH METHODOLOGY**

This study adopted an ex post facto research design with a correlational approach. The ex post facto design was considered appropriate because the study relied on historical financial data from published annual reports of the selected deposit money banks, with no researcher-manipulated variables. The correlational approach was employed to examine the relationship between dividend policy variables and investment decisions of deposit money banks in Nigeria. The design further enabled the study to determine the extent to which dividend policy indicators influence investment decisions as reflected in the market value of bank shares.

The population of this study comprised all 37 deposit money banks quoted on the Nigerian Stock Exchange as of 31st December 2024. The study covered five years from 2016 to 2020. This period was selected because it represents the most recent stable financial reporting period before the outbreak of the COVID-19 pandemic, which significantly affected stock market performance, firm valuation, and investors' decision-making processes. Restricting the study to the pre-pandemic period minimizes the potential distortions associated with the economic disruptions caused by the pandemic.

A purposive sampling technique was employed to select the sample. Six deposit money banks were selected based on the availability and completeness of their annual reports and financial statements throughout the study period (2016–2020). The selected banks were Access Bank Plc, First Bank of Nigeria Plc, Guaranty Trust Bank Plc, United Bank for Africa Plc, Zenith Bank Plc, and Wema Bank Plc. The purposive sampling technique was adopted because it enabled the researcher to select banks with complete and consistent financial information required for the analysis. The selected banks generated a balanced panel dataset comprising 30 firm-year observations (6 banks  $\times$  5 years).

The study relied exclusively on secondary data obtained from the published annual reports and financial statements of the sampled deposit money banks. Additional data relating to share prices was sourced from the Nigerian Stock Exchange price lists and market reports. Information collected included dividend per share, dividend yield, retained earnings, and share price. These variables were extracted and compiled for the period 2016 to 2020 to facilitate empirical analysis of the relationship between dividend policy and investment decisions among deposit money banks in Nigeria.

Data collected for the study were analyzed using STATA Version 13 statistical software. Given the panel nature of the dataset, panel regression analysis was adopted to examine the effect of dividend policy on investment decisions. In addition, descriptive statistics, Pearson correlation analysis, and Variance Inflation Factor (VIF) tests were conducted. Descriptive statistics were used to summarize the characteristics of the variables through measures such as mean, standard deviation, minimum, and maximum values. Pearson correlation analysis was employed to determine the direction and strength of relationships among the study variables, while the Variance Inflation Factor (VIF) was used to assess the presence of multicollinearity among the explanatory variables. The regression analysis was used to estimate the effect of dividend policy proxies on investment decisions. Statistical significance was evaluated at the 5 percent level of significance. The study adapted the dividend policy-investment decision model employed in previous empirical studies with modifications to suit the objectives of this research. Investment decision was proxied by share price, while dividend policy was measured using dividend per share, dividend yield, and retained earnings.

The functional relationship is expressed as:

$$SP = f(DPS, DY, RE)$$

The econometric model is specified as:

$$SP_{it} = \beta_0 + \beta_1 DPS_{it} + \beta_2 DY_{it} + \beta_3 RE_{it} + \mu_{it}$$

Where:

SP = Share Price  
DPS = Dividend per Share  
DY = Dividend Yield  
RE = Retained Earnings,  $\beta_0$  = Constant term  
 $\beta_1 - \beta_3$  = Coefficients of the explanatory variables  
 $\mu$  = Error term  
 $i$  = Cross-sectional unit (bank)  
 $t$  = Time period

The study expects a positive relationship between dividend policy variables and investment decisions.

Therefore:

$$\beta_1 > 0$$

$$\beta_2 > 0$$

$$\beta_3 > 0$$

This implies that increases in dividend per share, dividend yield, and retained earnings are expected to positively influence investors' perception and consequently improve the market valuation of the banks. Table 1 presents the measurement and operational definitions of the variables used in the study.

Table 1: Variable Measurement and Operational Definition

| Variable                 | Type                 | Measurement                                                                  | Source                        |
|--------------------------|----------------------|------------------------------------------------------------------------------|-------------------------------|
| Share Price (SP)         | Dependent Variable   | Closing market price of the bank's share at the end of each financial year   | Almumani (2014)               |
| Dividend Per Share (DPS) | Independent Variable | Total ordinary dividend divided by the number of ordinary shares outstanding | Morrison et al. (2018)        |
| Dividend Yield (DY)      | Independent Variable | Dividend per share divided by market share price                             | Abu and Adebayo (2020)        |
| Retained Earnings (RE)   | Independent Variable | Retained earnings divided by the number of ordinary shares outstanding       | Akinkoye and Akinadewo (2020) |

*Source: Researcher's Compilation (2026).*

## 4 RESULTS AND DISCUSSION

### 4.1 Data Analysis and Results

The data were analyzed with the aid of Stata 13 software using Descriptive Statistics, Pearson Correlation, Variance Inflation Factor, and Linear Regression model based on the data attached in the appendix.

Table 2 shows that the share price (SP) has a minimum value of 0.52, a maximum value of 30.32, and a mean value of 11.69, which is within the minimum and maximum values, indicating a good spread within the period studied. Dividend per share (DPS) has a mean value of 0.69, the standard deviation is 0.81, the minimum value is 0.1, and the maximum is 2.7.

Dividend yield (DY) has a mean value of 0.10, the standard deviation is 0.12, the minimum value is 0.01, and the maximum is 0.60. Retained earnings (RE) have a mean value of 0.00, the standard deviation is 0.00, the minimum value is -0.00, and the maximum is 0.01.

Table 2: Summaries of the descriptive statistics of the entire data set.

| Variable | Obs | Mean  | Std. Dev. | Min   | Max   |
|----------|-----|-------|-----------|-------|-------|
| SP       | 30  | 11.69 | 9.31      | 0.52  | 30.32 |
| DPS      | 30  | 0.69  | 0.81      | 0.1   | 2.7   |
| DY       | 30  | 0.10  | 0.12      | 0.01  | 0.60  |
| RE       | 30  | 0.00  | 0.00      | -0.00 | 0.01  |

*Source: Researcher's Computation using STATA 13 software*

The correlation matrix determines the degree of relationships between the proxies of an independent variable and the dependent variable. It is also used to show whether there is an association among the proxies of the independent variable itself, to detect if a multicollinearity problem exists in the model. The result from Table 3 shows that there exists approximately 46% positive and moderate relationship between Dividend per share (DPS) and share price (SP) of money deposit banks in Nigeria, which is significant at 1% level of significance. The table also shows that there is approximately 46% negative and moderate relationship between Dividend yield (DY) and share price (SP) of money deposit banks in Nigeria, which is significant at 1% level of significance.

Furthermore, the table shows 35% positive and weak relationships between retained earnings (RE) and share price (SP) of money deposit banks in Nigeria, which is significant at 1% level of significance. Finally, the relationships

between proxies of the independent variable themselves are mild, as all coefficients are below the threshold of 0.80 SP suggested by Gujarati (2003).

Table 3: Below is the Pearson correlation matrix for the data set to show the extent of associations between the variables.

| SP  | DPS   | DY    | RE    |      |
|-----|-------|-------|-------|------|
| SP  | 1.00  |       |       |      |
| DPS | 0.46  | 1.00  |       |      |
| DY  | -0.46 | 0.04  | 1.00  |      |
| RE  | 0.35  | -0.32 | -0.41 | 1.00 |

*Source: Researcher's Computation using STATA 13 software*

To further confirm the absence of a multicollinearity problem among the exogenous variables, the collinearity diagnostics test was equally observed as the Variance Inflation Factors (VIF) and the Inverse Variance Inflation Factors (I/VIF) values portray no multicollinearity problem in the data, as their values are less than 10 and 1, respectively (Gujarati, 2003), as presented in Table 4. This points to the fact that the variables are well selected and fitted in the same regression model because the multicollinearity problem is absent in the model, which is one of the requirements for regression analysis.

Table 4: Variance Inflation Factor (VIF)

| Variable | VIF  | 1/VIF |
|----------|------|-------|
| RE       | 1.37 | 0.73  |
| DY       | 1.22 | 0.82  |
| DPS      | 1.13 | 0.89  |
| Mean VIF | 1.24 |       |

*Source: Researcher's Computation using STATA 13 software*

## 4.2 Test of hypothesis

First hypothesis tested is to determine the relationship between dividend policy and investment decision of money deposit banks in Nigeria. The null hypothesis formulated is shown as follows;  $H_01$  Dividend per share has no significant effect on investment decisions in deposit money banks in Nigeria.

The result in Table 5 reveals that the dividend per share (DPS) has a positive coefficient of 7.10 and a significant p-value of 0.0 at 1% level of significance. This implies that a unit increase in dividend per share will lead to a 7.10 increase in share price. Based on this, the null hypothesis, which says that dividend per share has no significant effect on investment decision in deposit money banks in Nigeria, is rejected.

The study's second hypothesis is stated as follows;

$H_02$  Dividend yield has no significant effect on investment decisions in deposit money banks in Nigeria.

The result of the hypothesis in Table 5 shows that dividend yield (DY) has a negative coefficient of -24.41 and a significant p-value of 0.03 at 5% level of significance. This implies that a unit increase in dividend per share will lead to a 24.41 decrease in share price. Based on this, the null hypothesis, which says that dividend yield has no significant effect on investment decision in deposit money banks in Nigeria, is rejected.

The third hypothesis state that:  $H_03$  Retained earnings have no significant effect on investment decisions in deposit money banks in Nigeria.

Results displayed in Table 5 point that retained earnings (RE) have a positive coefficient of 1604.67 and a significant p-value of 0.009 at 1% level of significance. This implies that a unit increase in retained earnings will lead to a 1604.67 increase in share price. Based on this, the null hypothesis, which says that retained earnings have no significant effect on investment decisions in deposit money banks in Nigeria, is rejected.

**Table 5:** Below is the linear regression model conducted for the estimation of this model

| <div> <div>Number of obs = 30</div> <div>R-squared = 0.58</div> <div>F (3, 26) = 11.86</div> <div>Adj R-squared = 0.53</div> <div>Prob &gt; F = 0.00</div> <div>Root MSE = 6.39</div> </div> |         |           |       |      |            |           |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|-----------|-------|------|------------|-----------|
| SP                                                                                                                                                                                           | Coef.   | Std. Err. | t     | P> t | [95% Conf. | Interval] |
| DPS                                                                                                                                                                                          | 7.10    | 1.56      | 4.54  | 0.00 | 3.87       | 10.27     |
| DY                                                                                                                                                                                           | -24.4   | 10.90     | -2.24 | 0.03 | -46.82     | -2.00     |
| RE                                                                                                                                                                                           | 1604.67 | 570.89    | 2.81  | 0.01 | 431.18     | 2778.15   |
| cons                                                                                                                                                                                         | 6.76    | 2.51      | 2.69  | 0.01 | 1.60       | 11.92     |

*Source: Researcher's Computation using STATA 13 software*

Table 4.4 above shows that 58% variation of Share price (SP) is predicted by the combined effect of dividend per share (DPS), dividend yield (DY), and retained earnings (RE), with an R-squared of 0.58. This indicates that the model of the study is fit and the independent variables are properly combined and used. The Adj R-squared value of 0.52 with a P-value of 0.00, which stood at 5% significant level, implies that the model is fit for the study.

### 4.3 Discussion

The study examined the effect of dividend policy on investment decisions of deposit money banks in Nigeria using dividend per share (DPS), dividend yield (DY), and retained earnings (RE) as proxies for dividend policy, while share price was used as a proxy for investment decision. The findings revealed that dividend per share has a positive and significant effect on share price. This implies that higher dividend payments increase investors' confidence and consequently enhance the market value of bank shares. The result supports the Signaling Theory of Modigliani and Miller (1961), which posits that dividend payments convey positive information about a firm's future prospects to investors. The finding is consistent with the studies of Omaliko and Onyeogubalu (2021), who reported a significant positive relationship between dividend per share and share price, and Morrison, Samuel, and Grace (2021), who found that dividend policy significantly improves market performance and shareholders' wealth.

The study further found that dividend yield exerts a significant negative effect on share price. This suggests that an increase in dividend yield may not necessarily translate into higher market valuation of deposit money banks. The negative relationship may indicate that investors perceive unusually high dividend yields as a signal of limited growth opportunities or declining future earnings prospects. This finding agrees with Morrison et al. (2021), who reported a significant negative effect of dividend yield on share price among listed manufacturing firms in Nigeria.

The result also revealed that retained earnings have a positive and significant effect on share price. This indicates that investors value banks that retain part of their earnings for future expansion, operational sustainability, and investment opportunities. The finding supports the argument of Emekekwe (2005) that retained earnings constitute an important internal source of finance for future projects and growth. It also aligns with the position of DeAngelo, DeAngelo, and Stulz (2004), who emphasized the importance of retained earnings in supporting firm growth and enhancing long-term value.

Overall, the findings indicate that dividend policy significantly influences investment decisions in Nigerian deposit money banks, as reflected in changes in share prices.

## 5 CONCLUSION AND RECOMMENDATION

The study concluded that dividend policy plays a significant role in influencing investment decisions in deposit money banks in Nigeria. Specifically, dividend per share and retained earnings exert positive and significant effects on share price, while dividend yield has a significant negative effect on share price. The findings suggest that investors respond favorably to banks that maintain consistent dividend payments and adequate retained earnings for future growth.

Therefore, dividend policy remains an important mechanism through which deposit money banks can enhance investor confidence, improve market valuation, and sustain long-term corporate performance. the study recommends that;

1. Deposit money banks should maintain a stable and consistent dividend per share policy, as the study found that dividend per share positively and significantly influences share price and investor confidence.
2. Bank management should adopt a balanced dividend policy that ensures adequate retention of earnings for future expansion and investment opportunities, since retained earnings were found to have a positive and significant effect on share price.
3. Management should avoid excessively high dividend yields that may signal limited growth prospects to investors, given the significant negative relationship observed between dividend yield and share price.
4. Regulatory authorities and bank managers should encourage dividend policies that balance shareholders' returns with long-term corporate sustainability in order to enhance market valuation and strengthen investor confidence in the Nigerian banking sector.

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