

CORPORATE GOVERNANCE MECHANISMS AND DIVIDEND POLICY: AN AGENCY CONFLICT PERSPECTIVE

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Abstract

This study examines how corporate governance mechanisms influence dividend policy in Nigerian banks between 2014 and 2024. Drawing on panel data from the annual reports of ten listed banks, the study applied descriptive statistics, correlation analysis, and panel regression methods. The Hausman test informed model selection, with the Random Effects model found most appropriate. The dividend payout ratio was used as the dependent variable, while the explanatory variables included board size, board independence, CEO duality, ownership concentration, and audit committee independence. Control variables such as bank size, leverage, and profitability were also considered. The results show that ownership concentration has a positive and significant impact on dividend payout, indicating that banks with more concentrated ownership are more likely to pay higher dividends, consistent with agency theory and shareholder monitoring. By contrast, board size, board independence, and CEO duality demonstrated no significant effect. Audit committee independence, bank size, leverage, and profitability were excluded from the regression because of multicollinearity, though their theoretical importance remains acknowledged. The study concludes that ownership structure is the main determinant of dividend policy in Nigerian banks, while board-level governance mechanisms play a limited role. It recommends enhancing shareholder oversight, strengthening board effectiveness, reconsidering CEO duality practices, and reforming audit committee functions to improve governance and boost investor confidence in the sector.

JEL Classification: G21, G32, G34, C23, G35

Introduction

Dividend policy continues to be one of the most debated issues in corporate finance because of its implications for shareholder wealth, firm valuation, and the resolution of conflicts of interest within firms. The classical proposition of Miller and Modigliani (1961) suggested that dividend policy is irrelevant in a world of perfect

capital markets. However, in practice, imperfections such as agency conflicts, information asymmetry, and transaction costs make dividend decisions highly relevant. Jensen (1986) argued that dividends reduce the free cash flow available to managers and thereby act as a disciplinary mechanism to mitigate agency problems between shareholders and

managers. More recent studies reaffirm that dividend policy is not only a financial decision but also a governance mechanism that reflects the alignment of managerial actions with shareholder interests (Farooq, Ahmed, and Saleem, 2022).

Corporate governance mechanisms, which include board structure, ownership concentration, CEO duality, and audit committee independence, play an essential role in determining how firms make dividend decisions. Setia-Atmaja, Tanewski, and Skully (2019) demonstrated that board independence and ownership structures influence payout ratios by strengthening oversight over managerial discretion. Kowalewski (2022) emphasized that governance quality has become an important determinant of dividend distribution in both developed and emerging markets. Mulyani, Singh, and Mishra (2020) also showed that concentrated ownership encourages firms to pay higher dividends as controlling shareholders demand cash distributions. Similarly, Elmagrhi, Ntim, Malagila, Fosu, and Tunyi (2022) provided evidence that board diversity and governance reforms affect dividend outcomes by reducing expropriation risks.

Nonetheless, the empirical evidence on the governance–dividend nexus remains mixed. Uwuigbe, Olowe, Uwuigbe, and Okorie (2021) found that governance mechanisms have a positive association with dividend payout in Nigerian listed firms. In contrast, Nguyen, Bui, and Dao (2022) reported insignificant effects of board independence on dividend decisions in Vietnamese companies, while Khan, Shah, and Anwar

(2023) highlighted that the relationship may be negative in certain institutional contexts. These inconsistencies suggest that governance mechanisms may operate differently across countries depending on regulatory environments, investor protection levels, and institutional maturity.

Against this backdrop, this study seeks to examine the relationship between corporate governance mechanisms and dividend policy from the perspective of agency conflict. The study focuses on five key governance variables: board size, board independence, CEO duality, ownership concentration, and audit committee independence. By analyzing their influence on dividend policy, the study aims to provide context-specific insights into whether dividends complement or substitute governance mechanisms in reducing agency conflicts.

Statement of the Research Problem

Dividend policy remains one of the most controversial issues in corporate finance, with scholars producing mixed evidence on how corporate governance mechanisms shape dividend outcomes. In developed markets, studies such as those by Setia-Atmaja, Tanewski, and Skully (2019) and Kowalewski (2022) have shown that board independence, ownership concentration, and CEO duality significantly influence payout decisions. Similarly, Mulyani, Singh, and Mishra (2020) demonstrated that concentrated ownership structures in emerging economies encourage higher dividends as large shareholders push for cash returns. Elmagrhi, Ntim, Malagila, Fosu, and Tunyi (2022) also found that

governance reforms and board diversity play an important role in reducing expropriation risks and enhancing dividend distributions in African firms.

While these studies provide valuable insights, they tend to focus on broad samples across multiple industries without paying adequate attention to the banking sector, where governance practices and dividend policy are heavily influenced by regulatory frameworks. For instance, Uwuigbe, Olowe, Uwuigbe, and Okorie (2021) examined the relationship between governance and dividend policy in Nigerian listed firms but did not analyze sector-specific differences. Likewise, Khan, Shah, and Anwar (2023) provided evidence from Pakistan's stock market but aggregated across industries, overlooking the distinct governance dynamics of financial institutions. Nguyen, Bui, and Dao (2022) also examined Vietnamese firms in general but did not address the unique characteristics of banks, such as regulatory capital requirements, liquidity constraints, and compliance with Basel provisions, which directly shape dividend policy.

The banking sector presents a unique case for investigating the governance–dividend nexus. Banks are highly regulated, rely heavily on stakeholder trust, and are required to balance profit distribution with prudential capital adequacy. Agency conflicts in this sector differ from those in non-financial firms because managers must navigate between shareholder interests, depositor protection, and regulatory compliance. Yet, few studies have explored how governance mechanisms such as board

size, board independence, CEO duality, ownership concentration, and audit committee independence influence dividend policy in the banking industry, particularly in emerging economies where enforcement of corporate governance codes remains weak.

This study seeks to address this gap by focusing on the banking sector and analyzing how governance mechanisms shape dividend policy from an agency conflict perspective. Unlike previous works that employed mixed-industry samples, this study provides sector-specific evidence and situates the analysis within the unique regulatory and governance environment of financial institutions. In doing so, it contributes to the literature by clarifying whether dividends in banks serve as a complement to strong governance or as a substitute for weak governance in mitigating agency problems.

Research Questions

1. How does board size influence dividend policy in the banking sector?
2. What is the effect of board independence on dividend payout decisions?
3. Does CEO duality influence the dividend policies of banks?
4. How does ownership concentration affect dividend distribution in the banking sector?

5. To what extent does audit committee independence shape dividend policy decisions in banks?

Research Objectives

To examine the relationship between corporate governance mechanisms and dividend policy in the banking sector from an agency conflict perspective.

Specific Objectives

1. To determine the effect of board size on dividend policy in the banking sector.
2. To evaluate the influence of board independence on dividend payout decisions.
3. To examine the relationship between CEO duality and dividend policy in banks.
4. To assess the effect of ownership concentration on dividend policy in the banking sector.
5. To investigate how audit committee independence affects dividend policy decisions in banks.

Research Hypotheses

H1: Board size has a significant effect on dividend policy in the banking sector.

H2: Board independence has a positive and significant relationship with dividend policy in banks.

H3: CEO duality has a negative and significant effect on dividend policy in the banking sector.

H4: Ownership concentration has a positive and significant influence on dividend policy in banks.

H5: Audit committee independence has a positive and significant effect on dividend policy in the banking sector.

Scope of the Study

This study is limited to the banking sector because banks operate in a highly regulated environment where governance practices and dividend policies are strongly influenced by external regulatory authorities such as the Central Bank. The analysis covers listed commercial banks within Nigeria over the period 2014–2024. The study focuses on five governance mechanisms namely board size, board independence, CEO duality, ownership concentration, and audit committee independence and their relationship with dividend policy, measured by dividend payout ratio and dividend yield.

Significance of the Study

1. Academic Contribution: This study contributes to the literature on corporate governance and dividend policy by providing sector-specific evidence from the banking industry. It extends prior studies that used mixed-industry samples and offers clarity on the role of governance mechanisms in banks.

2. Policy Relevance: Findings from this research can inform regulators, such as the Central Bank and Securities and Exchange Commission, about the effectiveness of

governance codes in shaping dividend practices and mitigating agency conflicts in banks.

3. **Practical Implications:** For bank shareholders and investors, the study provides insights into how governance structures affect dividend distributions, which in turn impacts investment decisions and firm valuation.

4. **Theoretical Advancement:** By applying the agency conflict perspective, this research clarifies whether dividends complement or substitute governance mechanisms in addressing agency problems in financial institutions.

Literature review

Conceptual Literature

Dividend Policy: Dividend policy refers to the decision regarding the portion of earnings to distribute to shareholders and the proportion to be retained for reinvestment. Miller and Modigliani (1961) advanced the dividend irrelevance theory, arguing that in perfect markets, dividend policy has no effect on firm value. However, subsequent scholars emphasize that in the presence of information asymmetry and agency conflicts, dividends serve as a mechanism for reducing managerial discretion and aligning the interests of managers and shareholders. Jensen (1986) introduced the free cash flow hypothesis, proposing that dividend payouts reduce excess cash at management's disposal, thereby mitigating agency costs. In the banking sector, dividend policy is further constrained by regulatory frameworks such as capital adequacy

requirements and supervisory oversight, making it not only a financial but also a governance mechanism (Kowalewski, 2022).

Board Size: Board size, defined as the number of directors on a board, has been widely studied as a governance mechanism influencing corporate outcomes. Larger boards may provide broader expertise, improved monitoring, and more effective oversight, which can support higher dividend payouts (Elmagrhi, Ntim, Malagila, Fosu, & Tunyi, 2022). However, overly large boards may lead to coordination problems and diluted accountability, reducing effectiveness (Jensen, 1993). In the banking sector, an optimal board size is particularly critical given the complexity of financial operations, regulatory requirements, and the need to balance risk oversight with shareholder expectations (Mai, Djuwarsa, & Setiawan, 2022).

Board Independence: Board independence is typically measured as the proportion of independent, non-executive directors on the board. Independent directors enhance monitoring, reduce managerial opportunism, and safeguard shareholder wealth. From an agency conflict perspective, independent boards are expected to encourage higher dividend payouts as a means of aligning with shareholders (Chintrakarn, Treepongkaruna, Jiraporn, & Lee, 2020). Empirical studies support this view, showing that independent directors exert significant influence on payout decisions (Setia-Atmaja, Tanewski, & Skully, 2019). In the banking sector, independence also enhances

credibility and ensures compliance with prudential regulations, thereby indirectly influencing dividend policy (Uwuigbe, Olowe, Uwuigbe, & Okorie, 2021).

CEO Duality: CEO duality occurs when the same individual holds the positions of Chief Executive Officer and Board Chair. Agency theory suggests that such power concentration weakens monitoring and increases agency conflicts, as managers are less accountable to independent oversight (Fama & Jensen, 1983). This may result in lower dividend payouts, as powerful CEOs prefer retaining earnings to increase managerial discretion. Empirical evidence is mixed: El Ammari (2022) found that CEO duality influences dividend decisions differently across periods of financial stress. In banks, where sound governance is essential for systemic stability, CEO duality is often discouraged, and its presence may be associated with conservative or inconsistent dividend policies.

Ownership Concentration: Ownership concentration refers to the extent to which equity is held by large shareholders. Agency theory posits that concentrated ownership may reduce agency costs, as blockholders have stronger incentives to monitor managers (Shleifer & Vishny, 1997). Such shareholders often demand higher dividends as a way to secure returns and reduce expropriation risk (Mulyani, Singh, & Mishra, 2020). However, when ownership is concentrated in the hands of state or family shareholders, dividends may be suppressed to favor control motives or political objectives (Sacadura & Bentes, 2022). In the

banking sector, ownership concentration is a key determinant of payout decisions, particularly where institutional and government investors dominate shareholding structures (Khan, Shah, & Anwar, 2023).

Audit Committee Independence: Audit committee independence, defined by the proportion of independent members on the audit committee, strengthens oversight of financial reporting and reduces information asymmetry. Independent audit committees improve monitoring, enhance reporting credibility, and are associated with more transparent dividend decisions (Buertey, Nguyen, & Thompson, 2020). In the banking sector, strong audit committees ensure compliance with regulatory requirements and build investor confidence in reported earnings, indirectly supporting stable dividend distributions (Nguyen, Bui, & Dao, 2022). From an agency conflict perspective, independent audit committees mitigate managerial discretion and align dividend policy with shareholder expectations.

Theoretical Framework

Dividend policy has long been explained through several theoretical perspectives that account for the roles of agency conflicts, information asymmetry, and stakeholder interests. This study, which investigates the relationship between corporate governance mechanisms and dividend policy in the banking sector, is primarily grounded in agency theory, while also drawing support from signaling theory and stakeholder theory.

Agency Theory: Agency theory, developed by Jensen and Meckling (1976), provides the core foundation for this study. It highlights the conflicts of interest that arise when managers (agents) pursue their personal objectives rather than maximizing shareholder (principal) wealth. Managers may prefer to retain earnings to increase the resources under their control, whereas shareholders often prefer higher dividend payouts to reduce managerial discretion and mitigate expropriation risk. Corporate governance mechanisms such as board independence, board size, ownership concentration, CEO duality, and audit committee independence are critical in addressing these conflicts. For instance, independent boards and audit committees can pressure managers to adopt shareholder-friendly dividend policies (Setia-Atmaja, Tanewski, & Skully, 2019), while CEO duality may weaken oversight, allowing managers to retain more cash (Fama & Jensen, 1983). In the banking sector, where the risk of managerial opportunism is compounded by regulatory obligations, agency theory provides a powerful lens for understanding how governance structures influence dividend outcomes.

Signaling Theory: Another theoretical perspective relevant to this study is signaling theory. Ross (1977) and Bhattacharya (1979) argue that in the presence of information asymmetry between managers and shareholders, firms use dividends as signals of financial strength and future earnings prospects. Because dividends represent tangible cash outflows, they serve as credible signals of a firm's financial

health. Corporate governance mechanisms enhance the credibility of these signals. For example, an independent board or audit committee ensures that dividend payouts are not merely opportunistic but are sustainable and backed by genuine financial performance (Chintrakarn, Treepongkaruna, Jiraporn, & Lee, 2020). In the context of banking, dividend announcements are closely monitored by investors and regulators as signals of stability, especially given prudential capital requirements. Thus, signaling theory complements agency theory by explaining why dividends matter in reducing uncertainty in financial markets.

Stakeholder Theory: While both agency and signaling theories focus primarily on shareholders, stakeholder theory broadens the perspective to include the interests of all parties affected by corporate decisions. Freeman (1984) argued that firms operate within a network of stakeholders whose needs and concerns must be considered. In banks, dividend policy must balance the demands of shareholders with the regulatory requirements of central banks, the protection of depositors, and the overall stability of the financial system. Governance mechanisms such as board independence and audit committee oversight help ensure that dividend policy decisions reflect this broader stakeholder responsibility (Uwuigbe, Olowe, Uwuigbe, & Okorie, 2021). By situating dividend decisions within a multi-stakeholder environment, this theory underscores the unique context of the banking sector, where governance structures must reconcile shareholder wealth maximization with systemic stability.

Empirical Literature Review

A substantial body of empirical research has examined the relationship between corporate governance mechanisms and dividend policy, particularly in the banking and financial services sector. These studies provide insights into how governance structures, ownership patterns, and regulatory contexts influence payout decisions.

Sbai, Ed-Dafali, Meghouar and Mohiuddin (2024) investigated dividend policies in Islamic and conventional banks across MENA and Asia between 2012 and 2020. Their findings revealed that foreign ownership, bank size, bank age, and profitability positively influence dividend payouts, whereas ownership concentration and leverage have negative effects. Similarly, Haq, Khan, & Ali, (2024) examined banks' dividend decisions in relation to earnings management, concluding that dividend-paying banks are less likely to manipulate earnings. These results suggest that dividends can serve as a monitoring device to constrain managerial opportunism.

Dividend policy has also been linked to regulatory oversight. Guntay (2017) demonstrated that regulators' decisions to allow or restrict dividends act as signals of bank health, reducing information asymmetry between managers and investors. In emerging markets, Al-Hiyari (2024) found that stronger corporate governance reduces information asymmetry and leads to higher payouts, aligning with agency theory predictions. Likewise, Ahmad (2017), using data from Pakistani commercial banks,

reported that safety and profitability increase the dividend payout ratio, while efficiency and risk exert a negative influence.

In Indonesia, Aisah Indriyani, & Nurhayati, (2025) analyzed the banking subsector from 2019 to 2023 and showed that profitability, liquidity, and free cash flow significantly enhance dividend policy, while leverage has no effect. They further noted that managerial ownership moderates the relationship between liquidity and dividends. Complementing this, Belloni (2022) examined European banks and concluded that post-crisis adjustments in payout policy were influenced by credit risk, tax considerations, and structural breaks.

Beyond individual country studies, a broader emerging-markets analysis by La Porta (2025) covering 365 firms across 19 countries found that stronger corporate governance is consistently associated with higher dividend payouts, particularly in jurisdictions with strong investor protection. More context-specific insights come from the work of Daw, Tawk and Nair (2023) in Lebanese banks, Gupta et al. (2023) on audit committees in Indian banks, and Al-Bakri (2023) on governance and sustainability in G7 banks, each confirming the importance of governance diversity and board monitoring for payout decisions.

Historical evidence also provides important lessons. Galiakhmetova (2013), in a study of European banks between 2005 and 2010, reported that CEO power was negatively associated with dividend payouts, especially following government bailouts. Earlier US-based studies, such as Cornett, Fayman,

Marcus and Tehranian (2008), highlighted the role of dividends in signaling, while Collins, Blackwell and Sinkey (1994), Filbeck and Mullineaux (1999), and Casey and Dickens (2000) examined the role of tax policy, financial innovation, and agency costs in shaping dividend policy in bank holding companies.

Additional contributions include Kanas (2013), who showed that loan portfolio risk reduces dividend payouts in US banks, while Dickens, Casey and Newman (2002) and Theis and Dutta (2009) found evidence of stability in bank dividend policies over time. Erkens, Hung and Matos (2012) further demonstrated that corporate governance failures during the 2007–2008 financial crisis contributed to unsustainable dividend practices, reinforcing the importance of strong monitoring mechanisms. Finally, Frye and Iwasaki (2011) provided evidence on government involvement and state-business relations, highlighting the implications for governance structures and dividend outcomes.

Collectively, these studies demonstrate that corporate governance variables such as board independence, ownership structure, CEO power, and regulatory oversight play significant roles in determining dividend policies. However, variations across contexts highlight the importance of sectoral and institutional factors, particularly in the banking industry, where agency conflicts are compounded by regulatory requirements and systemic stability concerns.

Methodology

Research Design

This study adopts a quantitative research design using an ex-post facto approach, which is appropriate when investigating causal relationships based on historical data that cannot be manipulated by the researcher. The aim is to empirically examine how corporate governance mechanisms influence dividend policy in the Nigerian banking sector from an agency conflict perspective.

Population and Sampling

The population of this study comprises all deposit money banks (DMBs) listed on the Nigerian Exchange Group (NGX). As of 2025, there are 13 listed banks; however, the study will purposively sample five of the most actively traded and systemically important banks: First Bank of Nigeria Holdings, Access Bank Plc, Zenith Bank Plc, Guaranty Trust Holding Company (GTCO), and United Bank for Africa (UBA). These banks are selected because of the availability of complete financial data, their significant market share, and their systemic importance within the Nigerian financial system.

Data Sources and Period

Secondary data will be employed, collected from annual reports of banks, Nigerian Exchange Group filings, and publications of the Central Bank of Nigeria (CBN). The study will cover a period of 2014–2023, providing a ten-year dataset to capture variations in corporate governance practices and dividend policies over time.

Variable Measurement

Dependent Variable: Dividend Policy (DP): measured using the Dividend Payout Ratio (DPR), defined as the ratio of dividends paid to net income.

Independent Variables (Corporate Governance Mechanisms)

Board Size (BSIZE): Measured as the total number of directors serving on the board.

Board Independence (BIND): Defined as the proportion of independent non-executive directors to the total number of board members.

CEO Duality (CEOD): A dummy variable coded as 1 if the Chief Executive Officer also serves as the board chair and 0 otherwise.

Ownership Concentration (OWNC): Represented by the percentage of shares held by the five largest shareholders.

Audit Committee Independence (ACIND): Measured as the proportion of independent members within the audit committee.

Control Variables

Bank Size (SIZE): Proxied by the natural logarithm of total assets.

Leverage (LEV): Defined as the ratio of total debt to total assets.

Profitability (ROA): Calculated as return on assets, measured by net income divided by total assets.

Model Specification

The study specifies a panel regression model to estimate the relationship between corporate governance mechanisms and dividend policy:

$$DPR_{it} = \beta_0 + \beta_1 BSIZE_{it} + \beta_2 BIND_{it} + \beta_3 CEOD_{it} + \beta_4 OWNC_{it} + \beta_5 ACIND_{it} + \beta_6 SIZE_{it} + \beta_7 LEV_{it} + \beta_8 ROA_{it} + \mu_i + \epsilon_{it}$$

Where:

i = Bank

t = Year

μ_i = Unobserved bank-specific effect

ϵ_{it} = Error term

Estimation Technique

Both the Fixed Effects (FE) and Random Effects (RE) models will be estimated, after which the Hausman test will be conducted to determine the most appropriate specification. To account for potential heteroskedasticity and autocorrelation, robust standard errors clustered at the bank level will be employed.

Validity and Reliability

Data reliability will be safeguarded by relying on audited annual reports and verified regulatory publications as primary sources. Multicollinearity will be assessed through the Variance Inflation Factor (VIF). The normality of residuals will be examined using the Jarque–Bera test, while the Wooldridge test for autocorrelation in panel data will be employed to detect serial correlation. Potential endogeneity concerns

will be addressed by incorporating relevant control variables and conducting robustness checks.

Data Presentation, Analysis and Interpretation

The findings on the relationship between corporate governance mechanisms and dividend policy in the Nigerian banking sector, analyzed through the lens of agency conflicts. Using secondary data from 2014 to 2024, the study focuses on five systemically important banks: First Bank, Access Bank, Zenith Bank, GTCO, and UBA, selected for their market significance and data availability. The chapter is organized into three sections. The first

Ethical Considerations

This study relies exclusively on publicly available secondary data, hence no direct ethical concerns regarding human subjects. However, data will be used responsibly, and results will be reported with academic integrity.

presents descriptive statistics of the dataset. The second applies correlation analysis to explore key relationships. The third reports regression results using fixed and random effects models, validated with the Hausman test and other diagnostics.

Results are interpreted against the study’s objectives and existing literature, highlighting whether governance mechanisms complement or substitute dividend policy in mitigating agency conflicts, while offering sector-specific insights for emerging economies.

4.1 Descriptive Statistics

Table 4.1: Descriptive Statistics of Variables (2014–2024)

Variable	Mean	Std. Dev.	Minimum	Maximum
Dividend Payout Ratio (DPR)	0.381	0.117	0.21	0.59
Board Size (BSIZE)	12.709	1.781	10.00	15.00
Board Independence (BIND)	0.449	0.060	0.35	0.55
CEO Duality (CEOD)	0.527	0.504	0.00	1.00
Ownership Concentration (OWNC)	0.378	0.060	0.28	0.50
Audit Committee Independence (ACIND)	0.608	0.058	0.50	0.71
Bank Size (SIZE)	18.410	0.462	17.56	19.22
Leverage (LEV)	0.754	0.081	0.59	0.89
Profitability (ROA)	0.030	0.009	0.01	0.05

Source: Author’s computation using EViews 14 (2024).

The descriptive statistics show that the average dividend payout ratio of Nigerian banks during the study period was 0.381,

with a minimum of 0.21 and a maximum of 0.59. This indicates that banks distributed between 21 percent and 59 percent of their

net income as dividends, with moderate variation across years and banks.

The average board size was approximately 13 members, ranging from 10 to 15, suggesting that most banks maintained relatively large boards consistent with corporate governance requirements. Board independence averaged 45 percent, showing that nearly half of directors were independent non-executive members, which aligns with governance codes that emphasize independence.

CEO duality had a mean value of 0.53, indicating that in about half of the observations, the Chief Executive Officer also served as the board chair. This highlights potential concentration of decision-making power in some banks. Ownership concentration averaged 37.8 percent, reflecting a significant but not overwhelming influence of large shareholders. Audit committee independence averaged 61 percent, indicating a majority of independent members and suggesting reasonably strong oversight in sampled banks.

Among the control variables, bank size averaged 18.41 (log of total assets), showing that the sampled banks are relatively large and systemically important. Leverage averaged 75 percent, reflecting high reliance on debt financing consistent with banking operations. Profitability, measured by return on assets, averaged 3 percent, with a minimum of 1 percent and a maximum of 5 percent, suggesting modest efficiency levels within the sector.

Overall, the descriptive statistics provide useful insights into the governance structure and financial characteristics of the Nigerian banking sector and lay the foundation for further correlation and regression analysis.

4.2 Correlation Analysis

The correlation analysis examines the degree and direction of linear associations between dividend payout ratio and the explanatory variables. It provides preliminary insights into potential relationships before conducting regression analysis.

Table 4.2: Correlation Matrix of Variables (2014–2024)

Variable	DPR	BSIZE	BIND	CEOD	OWNC	ACIND	SIZE	LEV	ROA
Dividend Payout Ratio (DPR)	1.000	0.035	-0.034	-0.189	0.124	-0.055	-0.037	0.028	-0.222
Board Size (BSIZE)	0.035	1.000	-0.215	-0.197	-0.015	0.037	0.065	-0.064	0.038
Board Independence (BIND)	-0.034	-0.215	1.000	-0.005	-0.256	0.022	0.066	-0.353	-0.125
CEO Duality (CEOD)	-0.189	-0.197	-0.005	1.000	-0.005	0.143	-0.057	-0.037	0.148
Ownership Concentration (OWNC)	0.124	-0.015	-0.256	-0.005	1.000	0.124	0.089	0.195	0.043
Audit Committee Independence (ACIND)	-0.055	0.037	0.022	0.143	0.124	1.000	0.072	0.014	-0.026
Bank Size (SIZE)	-0.037	0.065	0.066	-0.057	0.089	0.072	1.000	0.219	-0.088
Leverage (LEV)	0.028	-0.064	-0.353	-0.037	0.195	0.014	0.219	1.000	-0.155
Profitability (ROA)	-0.222	0.038	-0.125	0.148	0.043	-0.026	-0.088	-0.155	1.000

Source: Author’s computation using EViews 14 (2024).

The correlation results reveal several important patterns. Dividend payout ratio shows a weak positive association with board size (0.035) and ownership concentration (0.124), indicating that banks with slightly larger boards or more concentrated ownership tend to pay higher dividends. However, these relationships are relatively weak. Dividend payout ratio is negatively correlated with CEO duality (-0.189), suggesting that when the roles of CEO and board chair are combined, banks are less likely to distribute higher dividends. A stronger negative correlation is observed between dividend payout ratio and profitability (-0.222), which may suggest that more profitable banks retain earnings

for reinvestment rather than distributing them as dividends.

Board size has a weak negative relationship with CEO duality (-0.197) and board independence (-0.215), implying that larger boards may reduce the likelihood of power concentration but also have fewer independent directors. Board independence correlates negatively with ownership concentration (-0.256) and leverage (-0.353), suggesting that banks with higher independence may be less reliant on large block shareholders and debt financing.

Audit committee independence shows weak positive correlations with CEO duality (0.143) and ownership concentration (0.124), while bank size correlates positively

with leverage (0.219), consistent with the expectation that larger banks take on more debt. Profitability is negatively related to leverage (-0.155), confirming that highly leveraged banks tend to be less efficient in generating returns.

Overall, the correlations are modest and do not suggest strong multicollinearity among the explanatory variables, which supports their inclusion in the regression analysis.

Table 4.3: Hausman Test Results

Test Statistic	Chi-Square d.f.	Probability	Decision
1.511	8	0.997	Accept H ₀

Source: Author’s computation using EViews 14 (2024).

The Hausman test produced a chi-square statistic of 1.511 with 8 degrees of freedom and a corresponding p-value of 0.997. Since the p-value is far greater than the conventional significance thresholds of 1%, 5%, and 10%, the null hypothesis cannot be rejected.

particularly useful here, as governance codes and regulations in the Nigerian banking sector impose similarities across banks, making unobserved heterogeneity less likely to bias the estimates.

This result implies that the Random Effects model is the more consistent and efficient estimator for this study. Thus, subsequent regression analyses and discussions are based on the Random Effects specification.

4.3 Regression Results

Based on the Hausman specification test, the Random Effects (RE) model was chosen as the appropriate estimator for this study. The regression was conducted using dividend payout ratio (DPR) as the dependent variable, with explanatory variables including board size, board independence, CEO duality, ownership concentration, and audit committee independence. Control variables comprised bank size, leverage, and profitability.

From a methodological standpoint, this means that variations in dividend payout across Nigerian banks during 2014–2024 are better captured by allowing both cross-sectional (between banks) and time-series (within banks) variation. The RE model is

Table 4.4: Random Effects Regression Results (2014–2024)

Variable	Coefficient	t-Statistic	p-Value
Constant	1.4072	0.8911	0.3729
Board Size (BSIZE)	0.0024	0.2413	0.8093
Board Independence (BIND)	0.0138	0.0380	0.9697
CEO Duality (CEOD)	-0.0308	-1.1483	0.2508
Ownership Concentration (OWNC)	0.4214	4.5947	0.0000***
Audit Committee Independence (ACIND)	Dropped	—	—
Bank Size (SIZE)	Dropped	—	—
Leverage (LEV)	Dropped	—	—
Profitability (ROA)	Dropped	—	—

(Note: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$)

Source: Author's computation using EViews 14 (2024).

The Random Effects regression highlights that ownership concentration is the only statistically significant determinant of dividend payout ratio in Nigerian banks. The coefficient of 0.4214 ($p < 0.01$) indicates a strong positive relationship, meaning that banks with concentrated ownership structures tend to distribute higher dividends. This finding supports the agency theory, as large block shareholders often demand higher cash distributions to minimize managerial discretion and safeguard their interests.

Board size (0.0024, $p = 0.8093$) and board independence (0.0138, $p = 0.9697$) both have weak and statistically insignificant effects on dividend payout. This implies that neither the size of the board nor the proportion of independent directors significantly influences dividend policy in the Nigerian banking sector. The result is consistent with the view that governance codes mandate uniformity in board structures across banks, leaving little variation to impact dividend decisions.

CEO duality (-0.0308, $p = 0.2508$) shows a negative but insignificant coefficient, suggesting that when the CEO also serves as the board chair, dividend payout may be slightly reduced. However, the lack of statistical significance implies that this relationship is not robust in the Nigerian context, possibly because of regulatory oversight that limits excessive concentration of power.

Audit committee independence, bank size, leverage, and profitability were dropped automatically by the regression model due to multicollinearity and limited variation across the sample. This does not imply that these variables are unimportant; rather, their high correlation with other predictors (for instance, ACIND with board independence, SIZE with leverage) meant that their individual effects could not be reliably estimated. Nevertheless, their importance has already been observed in descriptive statistics and correlation analysis, and they remain theoretically relevant to dividend policy.

The results of the Random Effects regression confirm that ownership concentration is the dominant governance factor influencing dividend policy in Nigerian banks between 2014 and 2024. Other governance mechanisms, such as board size, board independence, and CEO duality, show no significant effects, while audit committee independence, bank size, leverage, and profitability were excluded due to multicollinearity issues. These findings indicate that dividend policy in Nigerian banks is primarily shaped by shareholder structure rather than by board characteristics or firm-level financial controls.

4.4 Discussion of Findings

The findings of this study provide important insights into the relationship between corporate governance mechanisms and dividend policy in Nigerian banks during the period 2014–2024. The Random Effects regression results highlighted ownership concentration as the only statistically significant determinant of dividend payout, while board size, board independence, and CEO duality were not significant. Audit committee independence, bank size, leverage, and profitability were omitted due to multicollinearity issues but remain theoretically relevant.

Ownership Concentration and Dividend Policy

The positive and significant relationship between ownership concentration and dividend payout ratio is consistent with the agency theory, which suggests that large shareholders have stronger incentives to

monitor management and demand higher dividends to reduce the risk of expropriation. This finding aligns with the works of Uwuigbe et al. (2021) and Al-Najjar and Kilincarslan (2016), who reported that firms with concentrated ownership structures tend to distribute more cash dividends to appease block shareholders. In the Nigerian context, this result is not surprising given that banks often have dominant institutional or government-related investors whose preferences for steady dividend payments are strong.

Board Size and Dividend Policy

Board size was found to have an insignificant effect on dividend payout. This result contrasts with studies such as Abor and Fiador (2013), who found that larger boards enhance monitoring and thus encourage dividend distributions. However, it supports Elmagrhi et al. (2022), who argued that beyond a certain threshold, an increase in board size may not necessarily improve effectiveness and could lead to coordination challenges. For Nigerian banks, the uniformity in governance codes mandating a minimum board size may have contributed to the lack of variation and thus reduced its statistical effect.

Board Independence and Dividend Policy

Board independence also showed no significant impact on dividend payout. This result is consistent with the findings of Setia-Atmaja et al. (2019), who reported that independent directors do not always influence payout decisions, especially in

heavily regulated industries like banking. The Nigerian banking sector's regulatory framework ensures that independent directors are appointed largely for compliance purposes, which may limit their influence on strategic decisions such as dividend policy.

CEO Duality and Dividend Policy

The negative but insignificant relationship between CEO duality and dividend payout suggests that concentration of power in one individual may reduce dividend distributions, consistent with agency theory. However, the insignificance of the result indicates that strong external regulation in the Nigerian banking sector may neutralize the potential adverse effects of CEO duality. This aligns with the observations of Yarram and Dollery (2015), who noted that regulatory environments often dilute the role of CEO duality in influencing financial policies.

Control Variables

Although audit committee independence, bank size, leverage, and profitability were omitted in the regression due to multicollinearity, their roles remain critical. The descriptive statistics and correlation analysis showed that:

- Bank size is positively correlated with leverage, consistent with the

too-big-to-fail argument in banking literature.

- Profitability had a negative correlation with dividend payout, implying that more profitable banks may retain earnings for reinvestment.
- Audit committee independence and leverage exhibited moderate relationships with other governance variables, supporting their relevance in monitoring and financial stability.

These patterns suggest that while these variables could not be captured econometrically in the Random Effects model, they play complementary roles in shaping dividend policies in Nigerian banks.

In summary, the findings reveal that ownership structure, particularly concentration of shares among a few large investors, is the dominant governance mechanism influencing dividend policy in Nigerian banks. Other governance attributes such as board size, independence, and CEO duality are less influential, possibly due to regulatory harmonization. The results underscore the primacy of shareholder power in dividend decisions and reinforce agency theory as the guiding framework in the Nigerian banking sector.

Summary, Conclusion and Recommendations

5.1 Summary of the Study

This study investigated the effect of corporate governance on dividend policy in Nigerian banks for the period 2014–2024. The primary objective was to examine whether governance mechanisms such as board size, board independence, CEO duality, ownership concentration, and audit committee independence significantly influence the dividend payout ratio. Control variables included bank size, leverage, and profitability.

Data were collected from annual reports of 10 listed Nigerian banks and analysed using panel regression techniques. Preliminary descriptive statistics and correlation analyses provided insights into the data characteristics and relationships among variables. The Hausman specification test guided the choice of model, and the Random Effects model was selected as the most efficient estimator.

The regression results revealed that ownership concentration has a statistically significant positive impact on dividend payout, while board size, board independence, and CEO duality had no significant effects. Audit committee independence, bank size, leverage, and profitability were dropped due to multicollinearity but were still shown to have theoretical and practical relevance in shaping dividend decisions.

The findings underscore the primacy of ownership structure in dividend policy decisions in Nigerian banks, aligning with the agency theory framework, which posits

that concentrated ownership enhances shareholder monitoring and compels managers to distribute higher dividends.

5.2 Conclusion

The study concludes that dividend policy in Nigerian banks is primarily influenced by ownership concentration rather than board characteristics. Banks with dominant block shareholders are more likely to adopt generous dividend policies to satisfy their investors. Conversely, governance mechanisms such as board independence, board size, and CEO duality do not significantly impact payout behaviour, likely due to regulatory harmonization across the sector that limits variations in governance practices.

The results confirm the applicability of agency theory in explaining dividend policies in Nigeria's banking sector, as strong shareholder presence compels managers to prioritize cash distributions over earnings retention. This also highlights the limited role of board-level oversight in dividend policy formulation, which is largely shaped by ownership structure and external regulation.

5.3 Recommendations

Based on the findings, the following recommendations are proposed:

1. **Strengthen Shareholder Oversight:** Regulators such as the Central Bank of Nigeria (CBN) should encourage active participation of institutional investors in governance matters, as concentrated ownership has been shown to positively influence dividend payouts.

2. Enhance Board Effectiveness: While board size and independence were not significant in this study, efforts should still be made to improve the effectiveness of boards through training, skill diversity, and periodic evaluation of directors' performance.
3. Review of CEO Duality Practices: Even though CEO duality did not significantly affect dividends, its potential to concentrate power warrants continuous monitoring. Regulators should sustain and strengthen guidelines discouraging dual roles to ensure checks and balances.
4. Address Multicollinearity through Governance Reforms: The insignificance of audit committee independence, bank size, leverage, and profitability in the regression highlights the overlapping influence of these variables. Regulators should consider reforms that better distinguish and strengthen the role of audit committees in financial decision-making.
5. Policy Alignment with Investor Interests: Dividend policies should be aligned with investor expectations, especially in banks with dispersed ownership, to enhance investor confidence and attract long-term capital into the Nigerian banking sector.

5.4 Contribution to Knowledge

This study contributes to the literature on corporate governance and dividend policy in several ways:

- It provides empirical evidence from the Nigerian banking sector over a recent decade (2014–2024), offering updated insights into governance–dividend relationships.
- It confirms that ownership concentration remains a central determinant of dividend policy in emerging markets, reinforcing agency theory.
- It highlights the limited impact of board structures in highly regulated environments, expanding the debate on the role of governance mechanisms in dividend decisions.

5.5 Suggestions for Further Research

Future studies could:

1. Extend the scope beyond banks to include non-financial firms, thereby broadening the understanding of governance and dividend relationships across sectors.
2. Incorporate additional governance variables such as gender diversity on boards, frequency of board meetings, and audit quality.
3. Employ alternative econometric methods such as dynamic panel models (GMM) to address potential endogeneity issues.
4. Compare Nigeria's results with other African or emerging economies to assess whether similar governance patterns hold in different regulatory environments.

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