Dividend policy, agency cost, and bank performance in selected Sub-Saharan African countries: the role of market risk

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Abstract

We modelled dividend policy, agency cost and bank performance using market risk as an intervening variable. The study was conducted on 250 commercial banks from 30 selected Sub-Saharan African countries for the period 2006 to 2015. From our long run analysis, we found a long run relationship between dividend policy, agency cost, market risk and bank performance. The disequilibrium will take about 39.5% yearly speed of adjustment to return to a steady state. Also, we found from the two proxies of market risk that, interest rate risk posits negative effect, while foreign exchange risk posits a positive significant effect on the variations in SSA bank performance. Also, evidences from the impulse response function and variable decomposition show that all the variables in the series respond to shocks in performance (ROA) directly or indirectly during the investigated period for the examined SSA banks with dividend policy and agency cost been the most significant amongst them. We therefore recommend that the banking sector in SSA should focus more on endogenous factors and review some of their policies as these contribute more significantly to variations in their performance than exogenous factors.