

Dividend Payout Ratio and Firm Performance: Evidence from Listed Deposit Money Banks in Nigeria

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Abstract

This study investigates the effect of Dividend Payout Ratio (DPR) on the performance of listed deposit money banks in Nigeria over the period 2015–2024. Using an ex-post facto research design, secondary data were collected from the audited annual reports of eleven (11) banks selected based on data availability. The relationship between DPR and firm performance, measured by financial indicators, was analysed using ordinary least squares (OLS) regression. The results indicate a negative but statistically insignificant relationship between DPR and firm performance (coefficient = -0.000034 , $p = 0.8718$). The model exhibits a reasonable explanatory power, with R-squared of 0.5837 and an F-statistic of 13.9955 ($p = 0.0000$), confirming the overall significance of the regression. The findings suggest that dividend payout decisions have minimal influence on the performance of Nigerian banks, implying that management should focus on other factors, such as operational efficiency and capital management, to enhance firm performance. The study contributes to the understanding of dividend policy effects in emerging banking sectors and provides insights for investors and financial managers.

1.0 Introduction

1.1 Background of the Study

Dividend policy remains one of the most debated issues in corporate finance because it directly affects shareholders' wealth and the financial decisions of firms. The decision to distribute earnings as dividends or retain them for reinvestment is a strategic financial decision that influences firm growth, profitability, and market value. Dividend payout ratio, which measures the proportion of earnings distributed to shareholders as dividends, is an important indicator used by investors to assess a firm's financial health and performance. For listed firms, particularly in the banking sector, dividend decisions are closely monitored by investors because they signal financial strength, stability, and management's confidence in future earnings (Umar, 2023).

Firm performance, on the other hand, reflects how efficiently and effectively a firm utilises its resources to generate profit and maximise shareholders' wealth. It is commonly measured using financial indicators such as return on assets (ROA), return on equity (ROE), and earnings per share

(EPS). In the banking sector, performance is particularly important because banks play a critical role in financial intermediation, economic growth, and financial system stability. Therefore, any financial decision, including dividend payout policy, may have significant implications for bank performance and investor confidence (Olubiyi, 2023).

The relationship between dividend payout ratio and firm performance has remained a controversial issue in finance literature. Some theories, such as the dividend relevance theory, argue that dividend policy affects firm value and performance because investors prefer current dividends to future uncertain capital gains. In contrast, the dividend irrelevance theory suggests that dividend policy does not affect firm value or performance under perfect market conditions. Despite these theoretical arguments, empirical evidence has produced mixed results, with some studies finding a positive relationship between dividend payout ratio and firm performance, while others report negative or insignificant relationships. This inconsistency in findings creates a gap that requires further empirical investigation, particularly in developing economies.

In Nigeria, listed deposit money banks operate in a highly regulated and competitive environment, and they are expected to maintain stable dividend policies to attract and retain investors. Investors in the Nigerian capital market often rely on dividend payments as a major source of return due to market volatility and uncertainty. As a result, banks that maintain consistent dividend payout ratios are often perceived as financially stable and well-performing institutions. However, paying high dividends may also reduce the amount of retained earnings available for expansion, investment, and risk management, which may negatively affect long-term performance. This creates a trade-off between dividend payout and firm performance, especially in the banking sector where capital adequacy and liquidity are critical.

Furthermore, Olubiyi, (2023) noted that the Nigerian banking sector has experienced significant reforms, recapitalisation, and regulatory changes over the years, which may influence both dividend policy and firm performance. Given these structural changes and economic fluctuations, it becomes necessary to examine how dividend payout ratio affects the performance of listed deposit money banks over time. Most previous studies in Nigeria focused on general dividend policy and firm performance, with limited emphasis specifically on dividend payout ratio and with more recent data. Therefore, there is a need for an updated empirical study covering recent years to provide more current evidence on the relationship between dividend payout ratio and firm performance in Nigeria.

Against this background, this study seeks to examine the effect of dividend payout ratio on firm performance of listed deposit money banks in Nigeria. The study will provide empirical evidence that will be useful to bank management, investors, regulators, and policymakers in making informed decisions regarding dividend policy and financial performance.

1.2 Research Question

To what extent does dividend payout ratio affect the financial performance of listed deposit money banks in Nigeria?

1.3 Research Hypotheses

H0: Dividend payout ratio does not significantly affect the financial performance of listed deposit money banks in Nigeria.

2.0 Review of Related Literature

2.1 Concept of Dividend Payout Ratio

Dividend payout ratio refers to the proportion of a firm's earnings that is distributed to shareholders as dividends within a financial year. It shows the percentage of profit paid out to shareholders and the portion retained in the business for reinvestment and future growth. The dividend payout ratio is an important measure of dividend policy because it indicates management's decision on profit distribution versus profit retention.

The dividend payout ratio is commonly calculated as:

$$\text{Dividend Payout Ratio} = \text{Dividend per Share} / \text{Earnings per Share} \times 100$$

It can also be measured as total dividends divided by net profit after tax. A high dividend payout ratio indicates that a firm distributes a large portion of its earnings to shareholders, while a low dividend payout ratio indicates that the firm retains more earnings for expansion and investment. Therefore, the dividend payout ratio serves as an important indicator of a firm's financial performance, growth opportunities, and shareholders' return.

2.2 Concept of Firm Performance

Firm performance describes a company's capacity to effectively utilise its resources to generate profit, increase shareholders' wealth, and accomplish its organisational goals within a specific period. It represents the overall financial condition of a firm, including its profitability and operational efficiency. Firm performance is commonly evaluated using financial indicators such as return on assets (ROA), return on equity (ROE), net profit margin, and earnings per share, which serve as key measures of financial success and efficiency (Ezeaku & Ibe, 2020). The concept is important to investors, management, and creditors because it provides insight into profitability, managerial effectiveness, financial stability, and the firm's ability to meet its financial obligations. In accounting and finance literature, firm performance is frequently measured using profitability ratios, particularly return on assets (ROA), which assesses how efficiently a firm generates profit from its total assets. ROA is computed as profit after tax divided by total assets and is widely regarded as a comprehensive performance indicator because it reflects both profitability and asset utilisation efficiency (Nwude & Okeke, 2024). ROA is especially appropriate for banking sector studies because banks depend largely on assets such as loans and investments to generate income. Therefore, a higher ROA indicates improved performance, while a lower ROA suggests poor asset utilisation efficiency.

According to Ogunleye, 2024, firm performance is influenced by several factors, including liquidity management, dividend policy, capital structure, firm size, and macroeconomic conditions. In the banking sector, performance can also be affected by regulatory policies, interest rates, and credit risk management. Consequently, firm performance remains a major variable in corporate finance research, particularly in studies that examine the relationship between financial decisions and profitability. In this study, firm performance will be measured using return on assets (ROA) because it provides a reliable indicator of how efficiently listed banks in Nigeria utilise their assets to generate profit.

2.2 Theoretical Framework

2.2.1. Signaling Theory

The Signaling Theory, first formalized by Spence (1973), is one of the most widely applied frameworks in corporate finance, especially in dividend policy literature. According to this theory, dividends serve as a signal to the market regarding the firm's future prospects. In imperfect capital

markets where information asymmetry exists between managers and investors, dividend announcements act as a tool for conveying private information. Firms with strong future earnings are more likely to pay high and consistent dividends to signal financial health and stability, while weak firms avoid such commitments due to fear of future unsustainability. This theory holds immense relevance in the Nigerian banking sector, where issues of transparency, disclosure practices, and investor confidence are prevalent. Akani and Lucky (2020) noted that commercial banks that increased their dividend per share during periods of economic instability were perceived as more resilient, hence attracting better market ratings and increased capital inflows.

Moreover, the Central Bank of Nigeria's guidelines on profit retention and dividend distribution further complicate investor interpretations of dividend decisions. In this context, dividend policy decisions become not only a financial tool but a strategic communication mechanism (Egwakhide & Ologunwa, 2019). Thus, the Signaling Theory provides a theoretical justification for investigating how dividend-related decisions influence performance outcomes in Nigerian banks.

2.3 Empirical Review

Nwude and Okeke (2024) studied financial management and corporate performance in Nigeria and reported that dividend per share had a positive relationship with return on assets and return on equity. The study concluded that dividend policy is an important component of financial management that influences corporate profitability.

Ogunleye (2024) examined bank performance and dividend policy in Nigeria and found that dividend per share had a significant positive effect on bank performance measured by return on assets. The study concluded that profitable banks tend to pay higher dividends, and higher dividends may also signal strong performance to investors.

Ajayi, Abolaji and Akinbode (2024) examined the effect of dividend policy on firms' earnings in Nigeria and found that dividend per share positively influenced earnings and profitability of listed firms. The study concluded that dividend policy plays a significant role in determining firm performance and shareholders' wealth.

Umar (2023) examined dividend policy and firm value of listed non-financial firms in Nigeria and found that dividend per share had a significant positive effect on firm value and profitability. The study explained that dividend payments serve as a signal of strong financial performance and increase investors' confidence, which in turn improves firm value.

Adegbe and Alabi (2023) examined the relationship between dividend policy and financial performance of listed firms in Nigeria. The study used return on assets and return on equity as measures of performance and found that dividend per share had a positive effect on return on assets, although the effect was not statistically significant in some of the years covered by the study. The study concluded that dividend policy influences firm performance, but the extent of the influence depends on the firm's financial condition and investment opportunities.

Olowe (2023) examined dividend policy and corporate performance in Nigeria and found that firms that maintained stable dividend per share recorded more stable profitability compared to firms with unstable dividend payments. The study emphasised that stability in dividend payments is an important factor that influences investors' confidence and firm performance.

Edicha, Abdullahi, and Ude (2021) investigated the link between dividend policy and the financial performance of Nigerian deposit money banks with emphasis on the moderating role of firm age. The study covered ten quoted banks from 2011 to 2020 using secondary data extracted from annual reports and analyzed through robust panel regression across two models. Dividend payout ratio, dividend coverage ratio, and retained earnings ratio were employed as proxies for dividend policy,

while return on assets served as the measure of performance. The findings revealed that retained earnings ratio and dividend coverage ratio significantly enhanced return on assets, while dividend payout ratio had a weak effect. Firm age was found to significantly moderate the effects of retained earnings and payout on performance. The study recommended prioritizing retained earnings and coverage while reducing payout to sustain profitability.

Saifullahi and Ramalan (2021) examined the effect of dividend policy on shareholders' wealth in Nigerian deposit money banks, using secondary data from annual reports of banks listed on the Nigerian Stock Exchange over a ten-year period. The study applied Pearson correlation and regression analysis to evaluate relationships between dividend policy (as the independent variable) and shareholders' wealth (as the dependent variable). Results indicated that dividend policy exerts both positive and negative effects on shareholders' wealth, suggesting a nuanced and bank-specific impact. The authors concluded that dividend policy does influence shareholder value but that this influence varies across institutions, and they recommended a tailored approach in designing dividend strategies to maximize wealth outcomes.

Finally, Bamigboye and Akinadewo (2021) examined the extent of dividend smoothing in Nigerian deposit money banks, drawing on data from ten authorized banks over the 2010–2019 period. Using judgmental sampling from all listed banks, the study applied descriptive and inferential statistics to assess smoothing levels, calculated as the ratio of dividends to earnings. Results showed that 20% of sampled banks exhibited high dividend smoothing (ratio > 1), 70% exhibited moderate smoothing (ratio between 0.6 and 1), and the remaining 10% had low smoothing (ratio ≤ 0.6), reflecting varying managerial influence over payout stability. The study concludes that dividend policy is significantly shaped by management discretion and called for a regulatory body to ensure that distributions align with distributable profits and discourage excessive smoothing.

3.0 Methodology

This study adopted an ex-post facto research design. The population consisted of thirteen deposit money banks listed on the Nigerian Exchange Group as of 31st December 2024. The sample included eleven banks, selected based on data availability. Secondary data were obtained from the audited annual reports and accounts of these banks covering the period 2015–2024. Data analysis was conducted using a pooled panel least squares estimator, following preliminary examinations of data characteristics and relationships among the variables through descriptive statistics and correlation analysis.

3.1 Description of Variables

The study included one dependent variable and three independent variables, measured as follows:

Table 3.1: Measurement of Variables

Variable	Type	Measurement/Proxy
Dividend Payout Ratio (DPR)	Independent	Total Dividend / Net Income
Return on Assets (ROA)	Dependent	Net Income / Total Assets

Source: Researcher's Compilation (2025)

3.2 Model Specification

To evaluate the effect of dividend payout ratio on bank performance, the study adopted a panel regression model. The functional relationship is expressed as:

$$ROA = f(DPR) \dots\dots\dots (1)$$

The econometric form of the model is:

$$ROA_{it} = \alpha + \beta_1 DPR_{it} + \varepsilon_{it} \dots\dots\dots (2)$$

Where:

ROA_{it} = Return on Assets of bank i at time t

DPR_{it} = Dividend Yield of bank i at time t

α = Intercept

β_1 = Coefficient of explanatory variables

ε_{it} = Error term

Data Presentation and Analysis

4.1 Descriptive Analysis of Data

Table 4.1 Descriptive Analysis

	ROA	DPR
Mean	0.038245	2.746927
Median	0.015323	0.256880
Maximum	0.330991	264.5946
Minimum	1.11E-05	0.000000
Std. Dev.	0.064262	25.19760
Skewness	3.194140	10.34157
Kurtosis	12.75598	107.9688
Jarque-Bera	623.2838	52461.94
Probability	0.000000	0.000000
Sum	4.206897	302.1620
Sum Sq. Dev.	0.450121	69206.17
Observations	110	110

Source: Eviews 10 Output (2026)

Based on Table 4.1, the descriptive statistics for Return on Assets (ROA) indicate that, on average, the sampled listed deposit money banks generated 0.0382 or 3.82% return on their total assets during the period under study. The maximum ROA observed was 0.331, suggesting that some banks achieved exceptionally high efficiency in asset utilization, while the minimum value of 0.000011 indicates that certain banks barely generated any returns on assets. The standard deviation of 0.0643 shows a moderate variability in asset performance across the banks. A positive skewness of 3.194 and a high kurtosis of 12.756 indicate that ROA distribution is highly right-skewed with extreme outliers, which is supported by the Jarque-Bera probability of 0.000, confirming non-normality in the dataset.

For **Dividend Payout Ratio (DPR)**, the mean value of 2.747 suggests that, on average, the banks paid out nearly three times their net income as dividends, which may indicate aggressive dividend policies or unusual data points. The maximum DPR of 264.595 reflects extreme cases where dividends greatly exceeded net income, while the minimum of 0 indicates that some banks did not pay dividends during the study period. The standard deviation of 25.198 shows significant variability, and a skewness of 10.342 along with an extremely high kurtosis of 107.969 highlights the presence of outliers and a heavily right-skewed distribution. The Jarque-Bera probability of 0.000 confirms that DPR is not normally distributed.

4.2 Test of Hypothesis

Table 4.2 Test of Hypothesis

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DPR	−0.000034	0.000210	-0.161720	0.8718
C	0.030460	0.008973	3.394702	0.0010
R-squared	0.583719	Mean dependent var		0.038245
Adjusted R-squared	0.563447	S.D. dependent var		0.064262
S.E. of regression	0.055151	Akaike info criterion		-2.921797
Sum squared resid	0.322413	Schwarz criterion		-2.823598
Log likelihood	164.6989	Hannan-Quinn criter.		-2.881967
F-statistic	13.99554	Durbin-Watson stat		1.724737
Prob(F-statistic)	0.000000			

Source: EvIEWS 10 Output (2026)

The regression result shows the effect of Dividend Payout Ratio (DPR) on firm performance. The coefficient of DPR is -0.000034 , which indicates that DPR has a negative relationship with firm performance. This implies that an increase in dividend payout ratio leads to a very small decrease in firm performance. However, the probability value of 0.8718 is greater than 0.05 , indicating that the effect is statistically insignificant. This means that dividend payout ratio does not have a significant effect on firm performance during the period under study.

The R-squared value of 0.5837 indicates that approximately 58.37% of the variation in firm performance is explained by dividend payout ratio, while the remaining 41.63% is explained by other variables not included in the model. The adjusted R-squared of 0.5634 confirms that the model has a good explanatory power. The F-statistic value of 13.99554 with a probability value of 0.0000 indicates that the overall regression model is statistically significant, meaning the model is fit for the study. The Durbin-Watson statistic of 1.7247 suggests the absence of serious autocorrelation in the model since the value is close to 2 . The constant value of 0.030460 indicates that when dividend payout ratio is held constant, firm performance will be approximately 0.030460 .

5.1 Conclusion

The study examined the effect of Dividend Payout Ratio (DPR) on the performance of listed deposit money banks in Nigeria. The regression analysis revealed a negative relationship between DPR and firm performance, with a coefficient of -0.000034 . This suggests that an increase in dividend payout ratio is associated with a very slight decrease in firm performance. However, the relationship was found to be statistically insignificant ($p = 0.8718$), indicating that DPR does not have a meaningful impact on firm performance within the period under study.

The model demonstrated a reasonable explanatory power, with an R-squared of 0.5837 and an adjusted R-squared of 0.5634 , suggesting that DPR accounts for approximately 58% of the variation in firm performance, while the remaining variation is attributable to other factors not captured in the model. The overall regression was statistically significant (F-statistic = 13.9955 , $p = 0.0000$), confirming the robustness of the model. Additionally, the Durbin-Watson statistic of 1.7247 indicated no serious autocorrelation issues.

The findings imply that, for the selected banks during the study period, dividend payout decisions have minimal influence on performance. This suggests that management and investors may need to consider other internal and external factors, beyond dividend policy, when seeking to enhance firm performance.

5.2 Recommendation

Banks should prioritise strategies beyond dividend payout policies, such as improving operational efficiency and capital management, to enhance firm performance.

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