

Dividend Policy and Firm Performance of Selected Commercial Banks in Nigeria

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Abstract: *This study examines the empirical impact of dividend policy on the financial performance of listed commercial banks in Nigeria. To address the operational trade-offs between the Signaling and Agency Hypotheses, dividend policy is analyzed through a dual framework: absolute Dividend Per Share (DPS) and relative Dividend Payout Ratio (DPR). Corporate banking performance is concurrently measured via Return on Assets (ROA) for operational asset efficiency and Return on Equity (ROE) for shareholder capital returns. Methodology Research Design: Explanatory, quantitative, ex-post facto panel research design. Data Source & Scope: Secondary data extracted from audited IFRS annual financial statements of thirteen (13) purposively sampled commercial banks listed on the Nigerian Exchange Group (NGX) from 2020 to 2024. Sample Size: A balanced panel of 65 unique bank-year observations. Estimation Model: A Hausman-validated Fixed Effects (FE) panel regression framework utilizing Huber-White robust standard errors to control for unobserved bank-specific heterogeneity, heteroskedasticity, and autocorrelation. Key Empirical Findings Dividend Per Share (DPS): Exerts a positive and highly significant impact on both Return on Assets and Return on Equity. This strongly validates Signaling Theory, showing that absolute nominal cash yields are treated by the market as a reliable indicator of underlying balance-sheet resilience and profitability. Dividend Payout Ratio (DPR): Exhibits a negative and statistically significant relationship with Return on Equity, while maintaining a neutral effect on Return on Assets. This negative equity pathway supports the Agency Hypothesis in banking architectures, proving that aggressive relative payout intensities erode a bank's internal capital base by drawing down retained earnings. Theoretical & Institutional Insights: The findings completely reject the Modigliani-Miller dividend irrelevance hypothesis under localized market conditions characterized by intense information asymmetry. Longitudinal tracking shows that tier-1 institutions (e.g., Zenith, GTCO, and UBA) manage absolute dividend signals effectively while maintaining capital buffers, whereas lower-tier institutions face severe capital preservation constraints. Policy Implications & Recommendations. The study recommends that bank board's implement strict prudential caps on relative distribution percentages (DPR) to protect retention reserves, while pacing nominal adjustments to absolute dividends (DPS) in strict alignment with realized bottom-line profit growth. Furthermore, these empirical results offer robust justification for the Central Bank of Nigeria's (CBN) cautious macro-prudential regulations and capital preservation mandates as the banking industry navigates its 2024–2026 recapitalization cycle.*

Keywords: Dividend Policy, Bank Performance, Return on Assets (ROA), Return on Equity (ROE), Fixed Effects Model, Signaling Theory, Banking Recapitalization, Nigeria.

INTRODUCTION

Dividend policy is a critical financial decision that determines the proportion of earnings distributed to shareholders versus retained for reinvestment. While early theories such as the dividend irrelevance proposition argued that dividend decisions do not affect firm value under perfect market conditions,

real-world imperfections—taxes, information asymmetry, agency conflicts, transaction costs, and regulatory constraints—make dividend policy highly consequential (Ed-Dafali, 2023). In Nigeria's banking sector, dividend policy has gained prominence in the post-2020 era due to COVID-19 recovery, macroeconomic volatility, and recapitalization directives from the Central Bank of Nigeria (CBN). Dividends serve as a signaling tool to communicate resilience and managerial confidence (Mustapha & Abdullahi, 2023). Given banks' systemic importance, high leverage, and strict prudential regulation, dividend decisions must balance shareholder expectations with capital adequacy and financial stability (Ofori-Sasu, 2023).

Empirical evidence in Nigeria shows mixed outcomes: Dividend Per Share (DPS) often correlates positively with Return on Assets (ROA) and Return on Equity (ROE), while high Dividend Payout Ratios (DPR) may weaken long-term performance by reducing retained earnings (Kumshe et al., 2021; Majaf, 2024). These complexities underscore the need for updated sector-specific analysis. Despite increased research, the effect of dividend policy on Nigerian banks remains inconclusive. Some studies highlight DPS as a positive driver of profitability, while others caution that high DPR undermines firm value and resilience. Limitations include reliance on single indicators, focus on non-financial firms, and outdated datasets that fail to capture post-2020 realities (Ed-Dafali, 2023).

This lack of clarity poses challenges for managers, investors, and regulators. Managers struggle to design dividend policies that reward shareholders without eroding capital buffers. Investors lack reliable signals of performance under current conditions. Regulators require empirical evidence to guide dividend approvals and prudential oversight. Nigeria's macroeconomic instability—exchange rate volatility, inflation, and interest rate adjustments—further complicates dividend decisions. Hence, a contemporary, bank-specific study is needed. The primary objective is to examine the effect of dividend policy on the performance of selected Nigerian commercial banks. Specifically, the study seeks to:

- i. Examine the effect of DPR on ROA of selected Nigerian commercial banks.
- ii. Examine the effect of DPR on ROE of selected Nigerian commercial banks.
- iii. Examine the effect of DPS on ROA of selected Nigerian commercial banks.
- iv. Examine the effect of DPS on ROE of selected Nigerian commercial banks.

Four null hypotheses were formulated:

H₀₁: DPR has no significant effect on ROA of selected Nigerian commercial banks.

H₀₂: DPR has no significant effect on ROE of selected Nigerian commercial banks.

H₀₃: DPS has no significant effect on ROA of selected Nigerian commercial banks.

H₀₄: DPS has no significant effect on ROE of selected Nigerian commercial banks.

The study contributes to literature by jointly analyzing DPR and DPS against ROA and ROE, reducing measurement bias. Using post-2020 data captures recent shocks and regulatory changes, clarifying dividend–performance relationships in emerging market banking systems (Mustapha & Abdullahi, 2023). Practically, the findings guide managers in balancing shareholder rewards with capital adequacy, investors in interpreting dividend announcements as performance signals, regulators in designing dividend approval guidelines that preserve resilience, shareholders in understanding whether dividend consistency or payout intensity better reflects performance.

The study focuses on thirteen commercial banks licensed by the CBN and listed on the NGX, covering 2020–2024. Independent variables are DPR and DPS; dependent variables are ROA and ROE; control variables include bank size, leverage, and liquidity. Panel data econometrics (Pooled OLS, Fixed Effects, Random Effects, Hausman test) were employed (Baltagi, 2021). Limitations include exclusion of non-deposit institutions and market-based measures such as Tobin's Q.

LITERATURE REVIEW

Conceptual Review

Dividend policy is the independent variable, measured by Dividend Payout Ratio (DPR) and Dividend Per Share (DPS). Firm performance is the dependent variable, measured by Return on Assets (ROA) and Return on Equity (ROE). Dividend Policy refers to management's decision on distributing earnings versus retaining them for reinvestment (Setiawan & Vivien, 2021). In banks, dividend decisions are constrained by capital adequacy and liquidity requirements (Ofori-Sasu, 2023). DPR measures payout intensity. High DPR may satisfy shareholders but weaken capital buffers (Kumshe et al., 2021). DPS represents actual cash dividends per share. Nigerian investors often prefer stable DPS as a credibility signal (Abubakar et al., 2020; Mustapha & Abdullahi, 2023). ROA indicates efficiency in asset utilization (Trinh, 2022). ROE reflects profitability attributable to shareholders' equity, but can be influenced by leverage (Jensen, 2021).

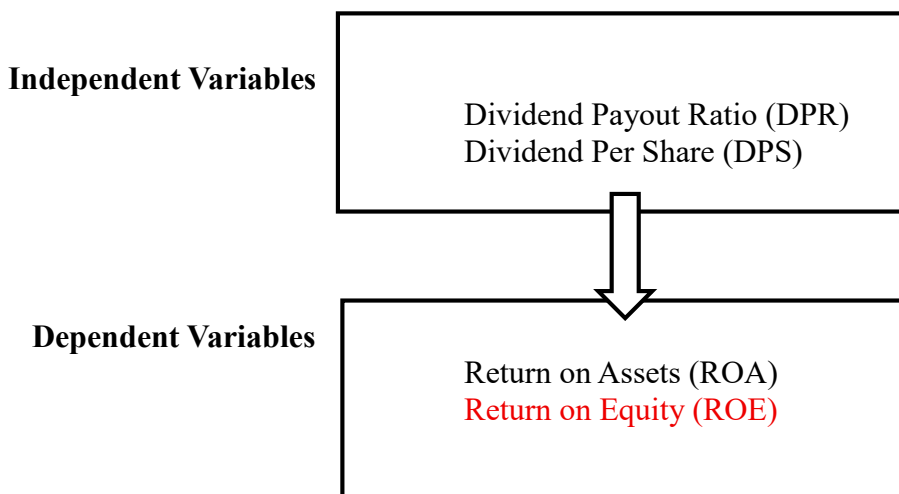


Figure 1: Conceptual Framework

The framework assumes that dividend decisions influence profitability both directly and indirectly through signaling, capital structure, and investor confidence, subject to regulatory constraints.

Theoretical Review

Several theories explain dividend behavior: Dividend Irrelevance Theory (Miller & Modigliani, 1961): Dividends should not affect firm value under perfect markets, but Nigerian conditions deviate due to regulation and information asymmetry (Ed-Dafali, 2023). Bird-in-the-Hand Theory (Lintner, 1962; Gordon, 1963): Investors prefer certain dividends today, especially in volatile markets like Nigeria (Abubakar et al., 2020; Kumshe et al., 2021). Signaling Theory: Dividends convey managerial confidence in future earnings (Mustapha, 2023; Ofori-Sasu, 2023). Agency Theory: Dividends reduce

free cash flow under managerial discretion, mitigating opportunism (Jensen, 2021; Ed-Dafali, 2023). Signaling Theory (DPS): Signals future ROA strength (Mustapha, 2023). Agency Theory (DPR): Improves ROE by reducing free cash flow waste (Ed-Dafali, 2023). Bird-in-the-Hand (DPS): Reduces risk, enhancing market value (Abubakar, 2020).

Empirical Review

Developed Economies: Dividends often signal profitability and stability. For example, dividend increases in U.S. firms predicted future earnings growth (Gambacorta et al., 2020). In Europe, dividends are now influenced by ESG scores (Baker et al., 2025). **Emerging Economies:** DPS positively influences ROA and ROE (Setiawan & Vivien, 2021). In Pakistan, stable dividends improved profitability (Ishtiaq & Muqaddas, 2024). Excessive payouts, however, weakened long-term growth (Trinh et al., 2024). **African Economies:** DPS positively affected performance in Ghana (Ofori-Sasu, 2023). In South Africa, dividends boosted confidence but constrained expansion (Chazi et al., 2022). Regulatory regimes moderated outcomes (Sbai, 2024). **Nigerian Non-Banking Firms:** DPR often reduced firm value, while DPS showed weak positive effects (Adeiza et al., 2020; Aroh et al., 2021). **Nigerian Banks:** DPS consistently showed positive effects on ROA and ROE (Mustapha & Abdullahi, 2023; Mustapha, 2023). DPR often weakened performance by eroding capital adequacy (Kumshe et al., 2021; Majaf, 2024). Fujafr (2023) noted dividends' positive association but weaker during macroeconomic uncertainty.

Literature Gap

Few studies jointly examine DPR and DPS alongside ROA and ROE in Nigerian banks. There is limited focus on the post-COVID period, when regulatory scrutiny and macroeconomic volatility intensified. Existing studies often overlook the unique institutional environment of banks. This study fills the gap by analyzing Nigerian commercial banks (2020–2024) using multiple proxies and robust econometric techniques.

METHODOLOGY

The study employs a descriptive and ex-post facto design, appropriate since dividend payments and performance outcomes have already occurred. A quantitative panel data approach integrates cross-sectional and time-series dimensions, improving estimation efficiency and controlling for unobserved heterogeneity (Baltagi, 2021; Wooldridge, 2023). The research is explanatory, seeking causal relationships between dividend policy variables—Dividend Payout Ratio (DPR) and Dividend Per Share (DPS)—and performance indicators—Return on Assets (ROA) and Return on Equity (ROE) (Saunders et al., 2023). This design aligns with prior studies in both developed and emerging economies (Mustapha & Abdullahi, 2023; Ofori-Sasu, 2023). The population consists of commercial banks licensed by the Central Bank of Nigeria (CBN) and listed on the Nigerian Exchange Group (NGX). These banks are central to Nigeria's financial system and operate under strict prudential regulations, making them suitable for dividend policy research (CBN, 2023). Listed banks were chosen due to their adherence to IFRS, transparency, and consistent disclosure of dividend information (NGX, 2024).

Purposive sampling was used to select thirteen banks that met criteria: continuous NGX listing between 2020–2024, availability of audited financial statements, and evidence of dividend payment. Excluded banks were omitted to minimize measurement errors and enhance robustness (Wooldridge,

2023; Baltagi, 2021). The selected banks—Access Bank, Zenith Bank, GTCO, UBA, First Bank, Stanbic IBTC, Fidelity Bank, FCMB, Sterling Bank, Wema Bank, Union Bank, Unity Bank, and Jaiz Bank—represent both large and medium-sized institutions, improving external validity (Mustapha & Abdullahi, 2023; Lazbery, 2024).

The study relies exclusively on secondary data extracted from audited annual reports, NGX Factbook, and publications of the CBN. These sources ensure compliance with IFRS and external verification, enhancing reliability and consistency (NGX, 2024; CBN, 2023). Secondary data are suitable because dividend and performance variables are accounting-based measures, free from respondent bias (Baltagi, 2021; Wooldridge, 2023). This approach supports longitudinal analysis and aligns with established practices in corporate finance research (Kumshe et al., 2021; Majaf, 2024).

Data analysis follows a multi-stage econometric approach. Descriptive statistics summarize variable characteristics, while correlation analysis examines associations and checks for multicollinearity (Wooldridge, 2023). Panel regression models—pooled OLS, fixed effects, and random effects—are applied, with the Hausman test guiding model selection (Baltagi, 2021). Diagnostic tests for heteroskedasticity, serial correlation, and multicollinearity are conducted, with robust standard errors applied where necessary. This ensures validity and reliability of results.

Model Specification

Two econometric models are specified:

Model 1: Dividend Policy and Return on Assets (ROA)

Model 2: Dividend Policy and Return on Equity (ROE)

Dividend policy is proxied by DPR and DPS, while control variables—bank size, leverage, and liquidity—are included to reduce omitted variable bias (Mustapha & Abdullahi, 2023; Ofori-Sasu, 2023). Panel estimation improves efficiency and controls for unobserved heterogeneity (Baltagi, 2021; Wooldridge, 2023).

Tests of Significance

The study employs: **t-tests** to evaluate individual variable significance. **F-tests** to assess overall model fit. **R² and Adjusted R²** to measure explanatory power. At a 5% significance level, results determine whether dividend policy significantly influences bank performance (Baltagi, 2021; Wooldridge, 2023). Diagnostic tests such as VIF for multicollinearity and Hausman specification for model choice further strengthen robustness.

RESULT AND DISCUSSIONS

Data were obtained from audited annual reports, NGX filings, and CBN publications, ensuring compliance with IFRS and regulatory standards. Dividend indicators (DPS, DPR) were computed from dividend announcements and profit after tax (PAT), while performance indicators (ROA, ROE) were derived using standard accounting formulas. The five-year period captures both COVID-19 recovery years (2020–2021) and the CBN recapitalization directive (2023–2026), reflecting market and policy realities.

Annual reports revealed distinct dividend patterns: Zenith, GTCO, UBA, Stanbic, Wema, and FCMB showed rising DPS and stronger ROA/ROE, confirming the positive effect of DPS. Conversely,

FBNH, Union, and Unity maintained low or stagnant dividends, correlating with weaker performance. Ecobank and Sterling demonstrated that modest DPS has limited signaling power. Regression results confirmed DPS positively influences ROA and ROE, while DPR negatively affects ROE but has no significant impact on ROA (Baltagi, 2021; Wooldridge, 2023).

Test of Hypotheses

H₀₁: DPR has no significant effect on ROA → Accepted.

H₀₂: DPR has no significant effect on ROE → Rejected. High DPR weakened ROE in FBNH and Unity.

H₀₃: DPS has no significant effect on ROA → Rejected. DPS growth boosted ROA in Zenith, GTCO, and Wema.

H₀₄: DPS has no significant effect on ROE → Rejected. DPS growth improved ROE in UBA and Stanbic.

DISCUSSION OF FINDINGS

The study found DPS has a positive and significant effect on ROA and ROE, consistent with Kumshe et al. (2021), who argued that DPS signals earnings quality. The negative effect of DPR on ROE supports Majaf (2024), who noted that high payout ratios reduce retained earnings and weaken long-term performance. Unlike earlier studies, this research jointly analyzed DPS and DPR, offering a holistic view of dividend policy effects.

Dividend policy in Nigerian banks is shaped by CBN directives and NGX filings. The 2023 recapitalization directive emphasized cautious payouts to preserve capital adequacy. In 2025, CBN suspended dividends for banks under forbearance, reinforcing prudential priorities. Despite these constraints, Nigerian banks declared ₦465.3 billion in dividends in 2024 (BusinessDay, 2024), with Zenith, GTCO, and UBA leading payouts. This confirms that higher DPS correlates with stronger ROA and ROE, while excessive DPR undermines equity growth.

Theoretical Implications

Signaling Theory: Supported, as DPS positively influences performance, signaling financial strength.

Agency Theory: Supported, since retained earnings reduce agency conflicts and strengthen capital adequacy.

Dividend Irrelevance Theory: Not supported, as dividend policy clearly affects performance in Nigeria's imperfect market.

Practical Implications

Managers: Balance shareholder expectations with regulatory capital requirements.

Investors: Interpret DPS as a reliable performance signal.

Regulators: Maintain cautious dividend guidelines to preserve stability while supporting investor confidence.

CONCLUSION AND RECOMMENDATIONS

Dividend policy is not neutral in Nigeria's banking sector but a critical determinant of performance. DPS strengthens profitability and stability, while excessive DPR weakens equity growth and resilience. The findings confirm that dividend decisions are highly relevant in Nigeria's imperfect market, where regulatory constraints and information asymmetry shape investor perceptions. The results are consistent with signaling and agency theories, while rejecting dividend irrelevance.

Based on the findings of the study, the following recommendations were made:

Managers must strike a balance between rewarding shareholders and preserving capital adequacy. The findings show that while Dividend Per Share (DPS) enhances profitability and signals financial strength, excessive Dividend Payout Ratios (DPR) weaken equity growth. Therefore, managers should adopt moderate payout ratios, strengthen liquidity management, and use DPS strategically as a communication tool to reassure investors of stability. Investors should interpret DPS as a reliable signal of profitability and stability. However, caution is required when banks maintain unusually high DPRs, as these may indicate short term generosity at the expense of long-term resilience. Investors are advised to diversify across banks with consistent dividend histories — such as Zenith, GTCO, and UBA — while monitoring regulatory directives that may affect payouts. The Central Bank of Nigeria (CBN) and the Nigerian Exchange Group (NGX) must continue enforcing prudential guidelines that restrict excessive dividend payouts, particularly for banks under regulatory forbearance. Flexible frameworks should be introduced to balance investor confidence with recapitalization requirements. Regulators should also encourage banks to disclose clear dividend policies in annual reports, thereby improving transparency and reducing information asymmetry.

Suggestions for Further Research

Future studies should incorporate market-based measures such as Tobin's Q, extend analysis to other financial institutions, and compare Nigerian banks with those in other emerging markets. Study long term effects of recapitalization on dividend policy. Examine governance influences on dividend decisions.

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