

EFFECT OF DIVIDEND POLICY ON FINANCIAL PERFORMANCE OF LISTED DEPOSIT MONEY BANKS IN NIGERIA

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Abstract

This study investigates how dividend policy affects the financial performance of listed deposit money banks in Nigeria. It examines the roles of Dividend Per Share, Dividend Payout Ratio, Dividend Yield, and Dividend Cover within the framework of Agency Theory, applying an ex-post facto design on eight banks from 2014–2024. Results show Dividend Per Share and Dividend Cover positively influence EPS, while Dividend Payout Ratio has a negative effect; Dividend Yield is positive but insignificant. The study concludes that dividend policy significantly shapes financial performance and recommends a balanced approach for sustainable growth.

Keywords: Dividend Policy, Dividend Per Share, Dividend Payout Ratio, Dividend Yield, Dividend Cover, Financial Performance.

JEL Classification: M41, G32, G35.

INTRODUCTION

A bank's dividend policy determines the proportion of earnings distributed to shareholders and the frequency of such payments. Management must decide whether to retain profits as accumulated earnings or distribute them as dividends. In Nigeria, banks play a vital role in economic growth. The Central Bank of Nigeria (2022) reported an 18.7% rise in bank intermediation in 2021, underscoring their importance in mobilizing savings, financing investments, and ensuring efficient resource allocation. A stable banking sector supports economic activity, dividend transactions, and financial stability. Dividends serve as rewards for shareholders' financial commitment (Hayes, 2022). While reinvestment strengthens organizational growth, shareholders expect returns through dividends, capital appreciation, or ownership satisfaction.

Dividend policy, typically determined at shareholders' meetings (Simajuntak, 2022), balances investor rewards with reinvestment needs and significantly influences financial performance. As Jayasinghe (2021) notes, dividend policies are strategic decisions affecting profitability, reinvestment capacity, and stability. Foong and Malek (2022) describe dividend policy as a persistent puzzle in finance. Dividend payout ratios and dividend per share act as communication tools, signaling management's confidence in profitability. Evidence from Nigeria supports this: Emeh et al. (2024) found dividend payments strongly linked to firm

value, while Omoregie and Ige (2025) confirmed positive effects of payout ratios and dividend per share in manufacturing.

A central issue in dividend policy is the agency conflict between managers and shareholders (Jensen, 1986). Managers often prefer retaining earnings to finance growth, maximize firm size, and ensure long-term stability, while shareholders seek immediate returns through higher payouts to limit managerial discretion over free cash flows (Al-Malkawi et al., 2010). This tension complicates the design of policies that balance investor expectations with sustainable performance. Most empirical evidence originates from developed economies with advanced financial systems, strong legal protections, and efficient capital markets (Fama & French, 2001). Nigeria, however, presents a distinct context characterized by weaker regulatory enforcement, less developed capital markets, and significant operational uncertainties (Ozuomba et al., 2023). Findings from advanced economies therefore require careful adaptation. Structural macroeconomic instability—persistent inflation and volatile exchange rates—further complicates dividend decisions in Nigeria’s banking sector (Akpan & Amran, 2020; Adebayo & Olaniyan, 2024). Listed deposit money banks must balance shareholder payouts with regulatory capital adequacy, profitability, and reinvestment needs, creating uncertainty about the financial impact of dividend choices (Ibe & Nwaorgu, 2022). This study examines the effect of dividend policy on the financial performance of listed deposit money banks on the Nigerian Exchange Group (NGX), using earnings per share (EPS) as the dependent variable, and dividend payout ratio (DPR), dividend per share (DPS), dividend cover (DIC), and dividend yield (DIY) as independent variables.

LITERATURE REVIEW

Conceptual Review

Financial Performance

Financial performance measures a firm’s efficiency and its ability to deliver returns to stakeholders. It reflects how effectively resources are utilized to generate income, sustain growth, and achieve strategic objectives. Investors, employees, creditors, and regulators rely on performance indicators to assess stability and future prospects. Strong financial performance enhances shareholder wealth, supports job creation, ensures consistent dividend payments, and contributes to broader economic development. According to Suleiman (2023), financial performance results from strategic choices and a firm’s capacity to meet operational and financial goals. Ismaila (2023) emphasizes that impressive performance depends on sound financial planning, documentation, and management. Ultimately, banks with healthy financial positions are better equipped to access credit, expand operations, and build stakeholder trust.

Earnings Per Share

Earnings per share (EPS) measures the portion of a company’s profit allocated to each outstanding share of common stock, reflecting profitability on a per-share basis. It is a key performance indicator for investors and crucial in assessing a bank’s ability to generate returns for shareholders. According to Ross et al. (2020), EPS provides direct insight into value

creation and is a primary driver of stock price movements. It can be viewed as the investor's reward for committing capital and is widely regarded as the best measure of firm performance. For this study, EPS is calculated as profit after tax divided by outstanding ordinary shares ($EPS = PAT/Stock$).

Dividend Policy

Dividend policy is the strategy a company adopts in deciding how profits are shared between shareholders and retained earnings for reinvestment and future growth. It is considered a critical financial decision because it determines the proportion of income distributed as dividends and the portion retained to support expansion. Booth and Cleary (2022) define dividend policy as the principle guiding how profits are allocated—specifying what is paid to shareholders and what remains within the firm for reinvestment. In essence, dividend policy balances investor rewards with long-term sustainability, making it a key determinant of corporate performance and financial stability.

Dividend per Share

Dividend per Share (DPS) is a key financial metric showing the portion of earnings paid to each ordinary shareholder. It is calculated by dividing total declared dividends by outstanding ordinary shares. DPS reflects investor returns, firm profitability, cash flow strength, and management's willingness to distribute value. Ogunleye and Sanni (2022) note that a stable or growing DPS signals confidence in future profits. DPS is also significant in investment decisions (Ibrahim & Alabi, 2021) and has been used to measure dividend policy in prior studies (Emeka-Nwokeji, 2022; Azende & Apebo, 2021). For this study, DPS is expressed as $DPS = \text{Dividend} \div \text{Common Stock}$.

Dividend Yield

Dividend Yield measures the return investors earn from dividends relative to a stock's market price. It is calculated by dividing annual dividend per share by the current market price per share and expressed as a percentage. This metric helps assess the sustainability of dividend policy. While high yields may signal strong shareholder rewards, they can also reflect falling share prices or weak reinvestment. In Nigeria's less efficient capital market, dividend yield strongly influences investor behavior due to limited opportunities and economic uncertainty (Olayemi & Ibrahim, 2021). Uzochukwu and Adegbite (2023) caution that excessive yields may suggest poor reinvestment. For this study, dividend yield is measured as $DPS \div MPPS$ (Kayode et al., 2022).

Dividend Cover

Dividend cover ratio (DIC) measures how many times a company's earnings can cover dividend payments to ordinary shareholders. It combines profitability and distribution policy, serving as a buffer against earnings shocks. A ratio above 1 indicates management has room to sustain dividends even during downturns. Analysts often integrate DIC with leverage and liquidity ratios, as cost-of-capital pressures can reduce coverage, while lower capital costs expand cushions (Arhinful et al., 2024).

Krylov (2024) highlights DIC as a key indicator of dividend policy in neutral environments. Dividend cover, calculated as net profit attributable to shareholders divided by total ordinary dividends, is considered safe when above two, allowing reinvestment and resilience (Anandasayanan & Velnampy, 2016). A low or negative cover signals financial distress and potential dividend cuts (Nwankwo, 2014). For this study, dividend cover is measured by dividing earnings per share (EPS) by dividend per share (DPS), expressed mathematically as $DIC = EPS \div DPS$.

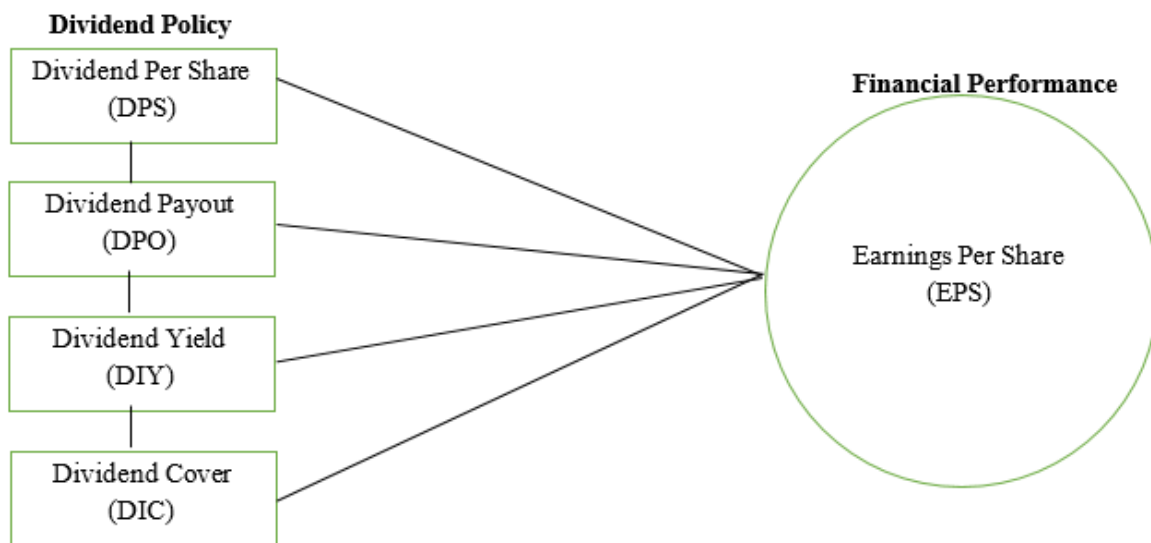


Figure 1: Conceptual Framework

Source: Researcher’s Conceptualization (2026)

Theoretical Review

Theoretical review provides the foundation for research. This study is guided by Dividend Relevance Theory (Walter, 1963) and Agency Theory (Jensen & Meckling, 1976).

Walter’s Dividend Relevance Theory argues that dividend policy influences firm value by linking the firm’s rate of return to its cost of capital. The model assumes financing through retained earnings only, constant return and cost of capital, immediate reinvestment or distribution of earnings, and an infinite firm life. The theory suggests dividend policy affects investor preferences and stock prices. Higher payouts may signal management’s confidence in future earnings, boosting firm value (Walter, 1963). Brealey, Myers, and Allen (2017) add that firms may smooth dividends to reduce uncertainty, while Ross, Westerfield, and Jordan (2021) emphasize aligning policy with shareholder preferences to enhance performance.

Agency Theory examines conflicts between shareholders (principals) and managers (agents). Managers may pursue personal interests, such as excessive compensation or empire-building, at shareholders’ expense (Jensen & Meckling, 1976). These conflicts create agency costs, requiring monitoring and alignment mechanisms.

Olaniyi and Ojo (2021) highlight the need for governance structures to ensure managers act in shareholders' best interests. Dividend policy can mitigate agency costs by reducing free cash flow available for discretionary spending. Opoku and Agyemang (2022) show that regular dividends discipline managers, while managerial equity ownership aligns interests with shareholders.

Together, these theories explain how dividend policy impacts firm value, financial performance, and governance.

Empirical Review

Balogun et al. (2026) examined dividend policy's effect on performance of listed consumer goods firms listed in Nigeria using data from 2014–2025. Dividend per share, payout ratio, and dividend yield were proxies for dividend policy, while return on assets (ROA) measured performance. Results showed DPO and DPS significantly enhanced profitability, while DIY was insignificant. The study recommended optimal payout practices and sustainable DPS policies to boost investor confidence.

Kumarihamy et al. (2026) studied eight healthcare firms on the Colombo Stock Exchange (2014–2023), using DPS, DIY, dividend payout ratio (DPR), and dividend cover (DIC) as independent variables, with ROA, ROE, and current ratio (CR) as dependent variables. Findings revealed DIY and DIC significantly improved profitability, DPR had a moderate positive effect, while DPS negatively affected liquidity. The study recommended balancing DIY and DIC for stability, moderating DPS, and promoting transparency in dividend policy.

Adebayo et al. (2025) analysed Nigerian firms (2019–2023) using DPR, EPS, and PER as explanatory variables, with equity price as the dependent variable. Results showed dividend indices had a positive but insignificant impact on equity prices.

Ahmed and Modibo (2025) investigated earnings management and dividend policy in 16 consumer goods firms (2012–2023). Findings showed DPR strongly determined firm value, with investors rewarding consistent payouts. DPS alone was insufficient, highlighting the importance of payout consistency.

Komolafe and Lenyie (2026) studied cost of capital's effect on dividend payout ratio in food and beverage firms (2015–2024). Results revealed cost of debt had a positive significant effect, cost of equity a negative insignificant effect, and weighted average cost of capital a negative significant effect.

Umoh et al. (2026) examined 22 manufacturing firms in Nigeria (2015–2024). Results showed DPS and DIY had significant positive effects on EPS, DPR had a significant negative effect, and dividend growth rate was positive but insignificant. Dividend cover ratio significantly and positively influenced EPS.

Overall, these studies highlight dividend policy's critical role in shaping firm performance across sectors, with consistent payout ratios and balanced policies emerging as key drivers of profitability, investor confidence, and financial stability.

MATERIAL AND METHODS

The study adopted an ex-post facto research design, suitable for analyses based on historical data where variables cannot be manipulated. A purposive sampling technique was used to select firms with complete data on dividend per share, dividend payout, dividend yield, dividend cover, and earnings per share between 2014 and 2024.

The population comprised all thirteen (13) deposit money banks listed on the Nigerian Exchange Group as of 2024. However, eight (8) banks were selected based on data availability: Access Bank Plc, First Bank of Nigeria (FBN), FCMB, Fidelity Bank, Guaranty Trust Bank (GTB), Stanbic IBTC, United Bank for Africa (UBA), and Zenith Bank Plc.

Data were manually extracted from audited annual reports and statutory financial statements of the selected banks. Analysis involved both descriptive and inferential statistics. Descriptive analysis included measures of central tendency and dispersion such as mean, median, minimum, maximum, and standard deviation. Inferential analysis employed a static panel data approach, using fixed and random effects models. This econometric technique is well-suited for longitudinal data across multiple entities, allowing simultaneous examination of cross-sectional and time-series variations. It provided a comprehensive understanding of the relationships among dividend policy variables and financial performance.

Model Specification and Variable Measurement

The panel regression model that captures the effects of dividend policy on financial performance of listed banks in Nigeria is presented below:

$$EPS_{it} = \alpha + \beta_1 DPS_{it} + \beta_2 DPO_{it} + \beta_3 DIY_{it} + \beta_4 DIC_{it} + \varepsilon_{it}$$

Were, EPS – Earnings per share

DPS – Dividends per share

DPO – Dividend payout ratio

DIY – Dividend cover

DIC – Dividend Cover

$\beta_1 \beta_4$ – Beta coefficient

α – constant

ε – error terms

Table 1: Description of Variables

Variables	Type	Description
EPS	Dependent variable	Profit after tax/Outstanding ordinary shares. Umoh et al (2026),
Dividend per share (DPS)	Independent variable	Total dividend over equity shares. Kumarihamy (2026) and Ahmed & Modibo (2025).
Dividend Payout Ratio (DPO).	Independent variable	Dividend per share over earning per share. Balogun et al (2026), Komolafe (2026).

Dividend Yield (DIY)	Independent variable	Percentage of annual dividend per share over current market price per share. Kumarihamy (2026)
Dividend Cover (DIC)	Independent variable	Earnings per share over Dividend per share. Umoh et al (2026).

Source: Researcher’s Compilation (2026).

RESULTS AND DISCUSSION

This section is devoted to presenting and empirically interpreting the results obtained from the model specification outlined earlier. The analysis draws directly on the data collected for the study’s variables, which include Earnings Per Share (EPS), Dividend Per Share (DPS), Dividend Payout Ratio (DPO), Dividend Yield (DIY), and Dividend Cover (DIC). These variables form the basis for examining the relationships and testing the hypotheses established in the research framework.

Descriptive statistics

Table 2: Descriptive Statistics

Variables	Mean	Std. Dev	Min	Max	Obs.
EPS	5.4786	2.3044	0.09	35.4	88
DPS	1.3251	6.6655	0.06	8.3	88
DPO	0.2769	1.5141	0.02	1.67	88
DIY	0.1018	0.2121	0	0.4	88
DIC	6.9725	0.0666	0.6	55.7	88

Source: Stata output from authors inputted data (2026)

Table 2 reports the descriptive statistics of the study’s key variables—Earnings Per Share (EPS), Dividend Per Share (DPS), Dividend Payout Ratio (DPO), Dividend Yield (DIY), and Dividend Cover (DIC)—based on 88 firm-year observations.

The mean EPS of 5.4786 suggests that, on average, the sampled banks are moderately profitable. However, the wide spread between the minimum (0.09) and maximum (35.4), together with a standard deviation of 2.3044, indicates substantial variation in profitability, with some banks performing strongly while others record very low earnings.

For DPS, the mean of 1.3251 reflects relatively modest dividend payments. The large standard deviation (6.6655), which exceeds the mean, highlights pronounced fluctuations in dividend policies. The range from 0.06 to 8.3 further underscores inconsistency in dividend distribution across banks.

The average DPO of 0.2769 shows that banks distribute about 27.7% of their earnings as dividends, retaining the remainder for reinvestment. Yet, the relatively high standard deviation (1.5141) points to considerable differences in payout strategies. The maximum ratio of 1.67 suggests that some banks pay dividends greater than their earnings, likely drawing on reserves.

DIY has a mean of 0.1018 (10.18%), indicating a moderate return to shareholders relative to market price. The standard deviation of 0.2121 reflects variability in returns, while the

minimum value of 0 reveals that some banks omit dividend payments in certain periods.

Finally, DIC records a mean of 6.9725, implying that earnings are, on average, nearly seven times the dividend paid, signaling strong capacity to sustain payouts. However, the reported standard deviation of 0.0666 appears implausibly low given the wide range (0.6–55.7), suggesting possible data inconsistencies or the influence of extreme outliers that warrant further scrutiny.

Correlation Matrix

Table 3: Correlation Matrix

Var.	EPS	DPS	DPO	DIY	DIC
EPS	1.000				
DPS	0.7907	1.000			
DPO	-0.1387	0.2188	1.000		
DIY	0.3728	0.1215	-0.1854	1.000	
DIC	0.1835	-0.2798	-0.4950	0.4976	1.000

Source: Stata output from authors inputted data (2026)

Table 3 presents the pairwise correlation coefficients among Earnings Per Share (EPS), Dividend Per Share (DPS), Dividend Payout Ratio (DPO), Dividend Yield (DIY), and Dividend Cover (DIC). These coefficients, which range between -1 and +1, measure the direction and strength of linear relationships among the variables. The results show a strong positive correlation between EPS and DPS ($r = 0.7907$), indicating that firms with higher earnings per share generally pay higher dividends per share. This aligns with financial theory, as profitable firms are better positioned to reward shareholders.

By contrast, EPS and DPO exhibit a weak negative correlation ($r = -0.1387$), suggesting that higher earnings do not necessarily lead to higher payout ratios. This implies that many firms prefer to retain a substantial portion of profits for reinvestment rather than distribute them fully as dividends. EPS and DIY are moderately positively correlated ($r = 0.3728$), meaning that greater profitability tends to be associated with improved shareholder returns in terms of dividend yield.

Finally, EPS and DIC show a weak positive relationship ($r = 0.1835$), suggesting that more profitable firms have slightly higher dividend cover, reflecting their capacity to sustain dividend payments over time.

Relationships Involving Dividend Variables

Table 3 reports the correlation coefficients between Dividend Per Share (DPS), Dividend Payout Ratio (DPO), Dividend Yield (DIY), and Dividend Cover (DIC). The correlation between DPS and DPO is positive but weak ($r = 0.2188$), indicating that higher dividend payments are only modestly associated with higher payout ratios. This suggests that while dividend size influences payout policy, the relationship is not particularly strong. Similarly, DPS and DIY exhibit a weak positive correlation ($r = 0.1215$). This implies that dividend payments have a limited direct impact on dividend yield, likely because yield is also shaped by

fluctuations in market price. By contrast, DPS and DIC show a negative correlation ($r = -0.2798$), meaning that larger dividend payments tend to reduce dividend cover. This reflects the trade-off between distributing earnings to shareholders and retaining sufficient profits to sustain future dividend payments.

Pre and Post Estimation Test

To mitigate the risk of spurious regression, the analysis was subjected to diagnostic tests for multicollinearity and heteroscedasticity, in order to determine whether the variables suffered from these econometric issues.

Table 4: Multicollinearity Test

Variable	VIF	1/VIF
DPS	1.79	0.557720
DPO	1.38	0.722512
DIY	1.34	0.747463
DIC	1.19	0.836925
Mean VIF	1.43	

Source: Stata output from authors inputted data (2026)

Table 4 indicates that there is no evidence of multicollinearity among the variables. This conclusion is supported by the minimum tolerance value (0.5577) and the maximum variance inflation factor (VIF) of 1.79, both of which fall comfortably within accepted thresholds. According to Hair et al. (2019), VIF values below 10 and tolerance values above 0.10 suggest that multicollinearity is not problematic. Similarly, Gujarati and Porter (2009) emphasize that VIF values close to 1 are indicative of the absence of multicollinearity. Taken together, these results confirm that the independent variables are not excessively correlated and can be reliably included in the regression analysis.

Normality of Residual

One of the key assumptions of classical ordinary least squares (OLS) regression is the normality of residuals. The Jarque–Bera test conducted for this model produced a p-value of 0.000, which is below the 5% significance threshold. This result indicates that the residuals deviate from normality, thereby violating the normality assumption of OLS regression.

Table 5: Skewness/Kurtosis (Jacque Bera) for Normality

MODEL	Variables	Obs	Pr(Skewness)	Pr(Kurtosis)	adj chi2(2)	Prob>chi2
EPS	Residual	88	0.0000	0.0001	25.76	0.0000

Source: Stata output from authors inputted data (2026)

Heteroskedasticity

The Breusch–Pagan/Cook–Weisberg test produced a chi-squared statistic of 31.52 with a p-value of 0.000, indicating a statistically significant result and thus confirming the presence of heteroskedasticity. Likewise, the Cameron & Trivedi decomposition test yielded a p-value of 0.000, further validating the violation of the homoskedasticity assumption. Given the evidence

of heteroskedasticity and the earlier finding of non-normal residuals, this study addresses these econometric issues by interpreting the regression outcomes using robust regression. The final specification of the model was guided by the results of the Hausman specification test.

Table 6: Test for heteroskedasticity

Breusch-Pagan/ Cook-Weisberg test		Cameron & Trivedi's decomposition	
	EPS		EPS
chi2	31.52	chi2	72.07
Prob > chi2	0.0000	Prob > chi2	0.0000

Source: Stata output from authors inputted data (2026)

Hausman specification test

Given the panel structure of the dataset, both Fixed Effects (FE) and Random Effects (RE) models were estimated. To determine the more suitable specification, the Hausman test was applied for each dependent variable. As shown in Table 7, the test yielded a chi-squared statistic of 11.44 with a p-value of 0.0220, indicating a statistically significant difference between the FE and RE estimators. This result suggests that the Fixed Effects model provides the more appropriate specification.

However, despite the statistical preference for the FE model, the previously established presence of heteroskedasticity and non-normal residuals necessitates the use of robust regression to ensure valid inference. Accordingly, the study interprets the Fixed Effects model using robust estimation techniques, thereby addressing econometric violations while maintaining consistency and comparability in the interpretation of results.

Table 7: Hausman specification Test

	EPS
chi2	11.44
Prob > chi2	0.0220

Source: Stata output from authors inputted data (2026)

Regression Results

The multiple regression analysis, designed to examine the effect of dividend policy on the financial performance of deposit money banks in Nigeria, was estimated using robust regression. This approach was adopted to address the presence of heteroskedasticity and non-normality in the data, as previously established. The regression results are presented as follows:

Table 8: Robust Regression Result

Variables	Coefficients	Std. Err	Z	P-value
Constant	-0.8947	0.7563	-1.18	0.237
DPS	3.9789	0.3311	12.01	0.000
DPO	-5.1512	.8022	-2.86	0.004
DIY	8.8569	5.3198	1.66	0.096
DIC	0.2335	0.0514	4.54	0.000
R – Squared				82.82

F-Stat.				175.81
P-sig.				0.0000

Source: Stata output from authors inputted data (2026)

The regression analysis reported in Table 8 was estimated using robust regression to correct for potential heteroskedasticity and autocorrelation in the data. The model's R-squared value of 82.82% indicates that approximately 82.82% of the variation in financial performance (EPS) is explained by the independent variables—DPS, DPO, DIY, and DIC. The F-statistic of 175.81 with a p-value of 0.0000 confirms that the overall model is statistically significant at the 1% level, implying that the explanatory variables jointly exert a meaningful effect on financial performance. The constant term (-0.8947) is negative and statistically insignificant ($p = 0.237$), suggesting that in the absence of explanatory variables, the baseline level of the dependent variable does not significantly differ from zero.

- **Dividend Per Share (DPS):** The coefficient of 3.9789 is positive and highly significant ($p = 0.000$), indicating that increases in DPS lead to significant improvements in financial performance. This strong positive relationship underscores the importance of dividend payments in shaping firm outcomes and investor perceptions.
- **Dividend Payout Ratio (DPO):** With a coefficient of -5.1512, significant at the 1% level ($p = 0.004$), the results suggest that higher payout ratios are associated with reduced financial performance. This may reflect the adverse effect of excessive dividend distribution on retained earnings and reinvestment capacity.
- **Dividend Yield (DIY):** The coefficient of 8.8569 is positive but only marginally significant at the 10% level ($p = 0.096$). This weak relationship suggests that while higher dividend yields may enhance performance, the evidence is not strong at conventional significance thresholds.
- **Dividend Cover (DIC):** The coefficient of 0.2335 is positive and highly significant ($p = 0.000$), indicating that stronger dividend cover positively influences financial performance. This supports the view that dividend signaling plays a critical role in shaping firm outcomes and market confidence.

Test of Hypotheses

H₀₁: There is no significant effect of dividend per share on the financial performance of listed Nigerian deposit money banks.

The robust panel regression results indicate that Dividend Per Share (DPS) exerts a significant positive effect on Earnings Per Share (EPS) of listed deposit money banks in Nigeria. Based on this outcome, the null hypothesis is rejected in favor of the alternative, which states that DPS has a significant positive impact on EPS at the 5% significance level ($p = 0.000$). The findings suggest that a unit increase in DPS leads to an increase of 3.9789 in EPS, underscoring the critical role of dividend payments in enhancing the financial performance of Nigerian deposit money banks.

H02: There is no significant effect of dividend payout on the financial performance of listed Nigerian deposit money banks.

The regression results demonstrate that the Dividend Payout Ratio (DPO) exerts a statistically significant negative effect on Earnings Per Share (EPS) of listed deposit money banks in Nigeria. Accordingly, the null hypothesis is rejected in favor of the alternative, which posits that dividend payout has a significant adverse impact on earnings per share at the 5% significance level ($p = 0.004$). The findings indicate that a unit increase in dividend payout reduces EPS by 5.1512, suggesting that excessive dividend distribution may limit retained earnings available for reinvestment and, in turn, weaken firm performance.

H03: There is no significant effect of dividend yield on the financial performance of listed Nigerian deposit money banks.

The regression results reported show that Dividend Yield (DIY) has an insignificant positive effect on the financial performance of listed deposit money banks in Nigeria. Based on this outcome, the alternative hypothesis is rejected, while the null hypothesis—which posits that dividend yield exerts an insignificant positive effect on Earnings Per Share (EPS)—is accepted at the 5% significance level ($p = 0.096$). This finding implies that dividend yield does not significantly influence bank performance within the study period, suggesting that variations in market price may dilute the direct impact of dividend payments on earnings.

H04: There is no significant effect of dividend cover on the financial performance of listed Nigerian deposit money banks

The regression results show that Dividend Cover (DIC) has a statistically significant positive effect on the financial performance of listed deposit money banks in Nigeria. Accordingly, the null hypothesis is rejected in favor of the alternative, which posits that dividend cover exerts a significant positive impact on Earnings Per Share (EPS) at the 5% significance level ($p = 0.000$). The findings suggest that a unit increase in dividend cover leads to an improvement in financial performance by 0.2335, highlighting the role of dividend sustainability in enhancing firm outcomes and investor confidence.

DISCUSSION

Based on the panel data regression analysis covering an eleven-year period (2014–2024), this study examined the effects of dividend policy—proxied by Dividend Per Share (DPS), Dividend Payout Ratio (DPO), Dividend Yield (DIY), and Dividend Cover (DIC)—on financial performance, proxied by Earnings Per Share (EPS), within the Nigerian deposit money banks sector.

These objectives are grounded in the principles of agency theory, which emphasizes that corporate organizations should create value for all stakeholders—not only shareholders. Stakeholders include customers, employees, suppliers, investors, communities, and regulators. By adopting ethical and socially responsible practices, firms can build trust, strengthen reputation, and secure long-term profitability.

Within this framework, and focusing on deposit money banks listed on the Nigerian Exchange Group (NXG), the study yielded the following refined and empirically grounded findings:

Dividend Per Share and Financial Performance

The regression results demonstrate that Dividend Per Share (DPS) has a statistically significant and positive influence on Earnings Per Share (EPS) among listed deposit money banks in Nigeria. This indicates that banks with higher DPS levels tend to achieve stronger financial performance.

The first research objective examined the relationship between DPS and EPS. The findings revealed a significant positive association, suggesting that increases in DPS are linked to improvements in EPS. This outcome supports the dividend relevance theory, which posits that dividend payments convey favorable information about a firm's future prospects. Higher DPS may enhance investor confidence, attract investment, and ultimately strengthen firm value.

This result is consistent with prior empirical studies emphasizing the importance of stable and increasing dividends in boosting market perception and financial performance. Specifically, Balogun et al. (2026) and Umoh et al. (2025) found that EPS exerts a significant positive effect on firm performance. However, contrasting evidence exists: Kumarihamy et al. (2026) reported a negative relationship between DPS and financial performance, highlighting that dividend effects may vary across contexts and markets.

Dividend Pay Out and Financial Performance

The regression results reveal that the Dividend Payout Ratio (DPO) has a statistically significant negative effect on Earnings Per Share (EPS) among listed deposit money banks in Nigeria. This suggests that banks with higher payout ratios are less likely to achieve improved financial performance, as excessive distribution of earnings to shareholders may reduce retained earnings available for reinvestment, thereby limiting growth opportunities and weakening long-term performance. The second research objective examined the relationship between DPO and EPS. The findings confirm a significant negative association, indicating that increases in DPO lead to decreases in EPS. This outcome underscores the potential trade-off between shareholder payouts and firm sustainability, consistent with the view that high payout ratios can constrain reinvestment capacity.

Empirical evidence supports this conclusion. Umoh et al. (2026) reported a significant negative relationship between DPO and financial performance, reinforcing the present study's findings. However, contrasting results exist: Komolafe and Lenyie, as well as Ahmed and Modibo (2025), found a positive significant effect of DPO on firm performance, suggesting that the impact of dividend payout may vary across contexts, industries, and market conditions.

Dividend Yield and Financial Performance

The regression results indicate that Dividend Yield (DIY) exerts an insignificant positive effect on Earnings Per Share (EPS) of listed deposit money banks in Nigeria. This suggests that, although higher dividend yields may be perceived favorably by investors, they do not significantly influence bank performance within the study period. A plausible explanation is

that dividend yield is largely driven by market price fluctuations, making it a less reliable measure of firm performance. It also implies that investors may consider other financial and non-financial factors beyond dividend yield when making investment decisions.

The findings further suggest that increases in dividend yield do not translate into statistically significant improvements in EPS, reinforcing its limited role in driving financial performance.

Empirical evidence on this relationship remains mixed. While Umoh et al. (2026) reported a significant negative relationship between dividend payout and financial performance, Komolafe and Lenyie (2026), as well as Ahmed and Modibo (2025), found a positive significant effect of dividend payout on firm performance. These contrasting results highlight the complexity of dividend policy outcomes, which may vary depending on industry dynamics, market conditions, and investor expectations.

Dividend Cover and Financial Performance

The regression results reveal that Dividend Cover (DIC) has a statistically significant positive effect on Earnings Per Share (EPS) of listed deposit money banks in Nigeria. This finding suggests that changes in dividend policy—particularly increases in dividend cover—serve as a strong signal of improved future earnings prospects. Firms that initiate or strengthen dividend cover may be communicating confidence in their financial position, which is reflected in higher EPS. Thus, an increase in DIC leads to an increase in EPS, underscoring the signaling role of dividend policy in shaping investor expectations and firm performance.

Empirical evidence supports this conclusion. Kumarihamy et al. (2026) reported a significant positive relationship between DIC and financial performance, consistent with the present study's findings. However, contrasting evidence exists: Adebayo et al. (2025) and Komolafe & Lenyie (2026) found a negative effect of dividend policy on financial performance, highlighting that the impact of dividend cover may vary across contexts, industries, and market conditions.

CONCLUSION AND POLICY RECOMMENDATIONS

Based on the panel regression analysis spanning 2014–2024, this study examined the effects of dividend policy—proxied by Dividend Per Share (DPS), Dividend Payout Ratio (DPO), Dividend Yield (DIY), and Dividend Cover (DIC)—on the financial performance of Nigerian deposit money banks, proxied by Earnings Per Share (EPS).

The findings reveal that DPS and DIC exert statistically significant positive effects on EPS, underscoring the importance of stable dividend payments and strong dividend cover in enhancing firm performance. In contrast, DPO has a significant negative effect on EPS, suggesting that excessive distribution of earnings reduces retained earnings available for reinvestment, thereby constraining long-term growth. DIY shows an insignificant positive effect, indicating that while dividend yield may be perceived favorably by investors, it does not significantly influence earnings performance within the study period.

Overall, the study concludes that dividend policy plays a critical role in shaping financial outcomes, but its components exert varying effects. DPS and DIC strengthen investor confidence and signal financial stability, while high payout ratios may undermine reinvestment capacity. Dividend yield, though relevant for market perception, is not a strong determinant of firm performance in this context.

The following policy recommendations are therefore suggested:

- 1) Sustainable DPS policy: Banks should maintain consistent and sustainable dividend per share policies, ensuring that payments reflect actual financial strength and long-term earnings capacity. This will enhance investor confidence and support firm value.
- 2) Balanced payout strategy: Since high payout ratios negatively affect EPS, banks should retain a reasonable proportion of earnings for reinvestment in profitable projects, expansion, and operational improvements. This balance will sustain earnings growth and prevent erosion of future profitability.
- 3) Dividend yield management: Given its insignificant effect, banks should not rely heavily on dividend yield as a performance strategy. Instead, it should be managed as a signaling tool, while greater emphasis is placed on operational efficiency and profitability-driven strategies.
- 4) Strengthening dividend cover: Banks should ensure strong dividend cover positions, maintaining earnings at levels that comfortably meet dividend obligations. This reflects financial stability, enhances investor confidence, and supports sustainable long-term growth.

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