

# Dividend Policy and Financial Performance: Evidence from Listed Deposit Money Banks in Nigeria

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## Abstract

This paper examines the effect of dividend policy on financial performance of listed deposit money banks in Nigeria. The data were collected from seven listed money deposit banks for a period of seven years from 2015 to 2021. The result indicates that dividend per share significantly and positively influenced the financial performance of listed deposit money banks in Nigeria. It also showed that firm size is negative and significantly related with firm financial performances. This result implies that larger firms are so reluctant about improving performance. On the other hand, the result of leverage reveals a positive significant relationship with financial performance. Thus, this finding is important to shareholders and potential investors.

**Keywords:** Dividend policy, Financial performance, Banking industry, Nigeria.

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## 1.0 Introduction

Financial performance is the achievement of the company's operation over a period (Fatihudin et al., 2018). Financial Performance can be viewed as how well a company enhances its shareholders wealth and the capability of the firm to generate earnings from the capital invested by shareholders (Osiegbu et al., 2014). The Financial performance of an organization has a critical implication to the growth of the organization and the economy. Evaluating the financial performance of a company allows management to review the results of business strategies

and objectives in economic terms. Managers have the responsibility of making optimum investment decisions on behalf of the firm and ensuring the maximization of shareholders' wealth. Corporate dividend policy is an important factor that determines the financial performance of corporations because it significantly deflates the amount of money to be invested and this will in turn affect the subsequent performance of companies. Therefore, dividend payout is very vital to the corporate stakeholders (Idris et al., 2020).

According to Sri Kumar (2022) dividend policy consist of basically two important issues. One of which is how much firms' can offer to their shareholders and how much is to be retained for future projects. Therefore, investigating the effect of firms' dividend policy on its performance is an important issue.

Prior studies in this area have provided a mixed finding. For example, Sondakh (2019) and Ofori-Sasu et al. (2017) showed a negative relationship between dividend policy and firm value in the Indonesian and Ghanian markets respectively. Contrary to the findings of Indonesian market, Dang et al. (2021) and Hauser and Thornton Jr (2017) reported positive association between dividend policy and firm value. Despite the extant evidence on dividend policy, findings may not be generalized due to one reason or the other (Idris et al., 2019). Consequently, Ali and Shboul (2023) argued that one of the likely areas of addressing the dividend puzzle is linking dividend policy and performance of firms. Hence, this study examines the influence of dividend policy and financial performance of listed money deposit banks in Nigeria. The remainder of this paper is structured such that section presents empirical review and hypothesis development; section 3 provides the methodology. The results and findings are reported in section 4 and section 5 concludes.

## 2.0 Literature Review

### *Dividend policy and financial performance*

As pointed out earlier, corporate dividend policy is an important issue in

the life cycle of various entities. According to Kanakriyah (2020) selecting an appropriate dividend policy is among the key issue while assessing corporate performance. Amidu (2007) using a sample of firms listed on the GSE over a eight year period from 1997 to 2004 tested the influence of dividend policy and firm performance in Ghana. The study reported negative relationship between dividend payout and return on assets. From the same market, Ofori-Sasu et al. (2017) found a negative relationship between dividend yield and shareholder wealth. These results are also line with the findings of Sondakh (2019) that a negative association between dividend policy and firm value prevails. Contrarily, Usman and Olorunnisola (2019), examine the effect of dividend policy on corporate performance of deposit money banks from the Nigerian market. The study revealed that dividend policy has a positive and significant impact on the performance of the banks. the finding is consistent with the result of Nurudeen and Yusuf (2020) who investigated the determinants of dividend policy of listed Deposit money banks. Kanakriyah (2020) using a data set 92 companies from ASE in the Jodanian market from 2015 to 2019 revealed that dividend proxied by dividend yield has positive and statistically significant effect on financial performance. Consistent with prior evidence, Bhuiyan and Ahmad (2022) in their studies found a positive and statistically significant impact of dividend policy on performance of firms from. Additionally, Porterfieldahi et al., (2021) on Dividend Policy and Shareholders Wealth, showed

there is positive relationship between dividend per share and market value added. Allen and Michaely (1995) studied the relationship between corporation's financial performance in emerging countries. The study revealed that there is significant impact of dividend policy on firms' financial performance, the study showed that dividend policy has a significant role in predicting firm performance. In line with previous evidence, we hypothesize that:

*H1: Dividend policy has no significant effect on financial performance of listed deposit money banks in Nigeria.*

### 3.0 Methodology

This paper examined the relationship between Dividend policy and financial performance of deposit money banks in

**Table 1: Definition and Measurement of Studied Variables**

Variable	Measurement	Sources
Firm Size	Natural logarithm of Total Asset	Abdullatif et.al. (2020)
DPS	Dividend paid divided by No of Shares	Ibrahim et al. (2017)
Leverage	Total Debt to Total Equity	Garba et.al. (2020)
Return on Asset	Net profit before tax divided by Total Asset	Sani et al. (2017)

### 4.0 Results and Discussion

**Table 2. Descriptive Statistics**

Variable	OBS	Mean	SD	Minimum	Maximum
ROA	42	0.321	0.396	0.002	1.929
DPS	42	2.668	3.333	0.019	17.359
FIRM SIZE	42	8.292	1.284	6.029	9.746
Leverage	42	0.165	0.184	0.028	1.132

From the descriptive results as presented in Table 2, the mean, minimum and maximum coefficients of ROA are 0.3212, 0.0021 and 1.9287. This implies that on average Nigerian deposit money banks

Nigeria. An ex post facto research design was used for this study. The ex post facto design was used because the data required for the study is a historical data. Thus, the data was extracted from annual financial statements of 7 selected listed money deposit banks in Nigeria for the period of 7 years (2015-2021).

#### *Regression Model*

This study proposed the following econometric model to analyses the relationship between dividend policy and financial performance of listed Deposit Money Banks in Nigeria. The measurement and definition of the variables is stated in Table 1 below.

$$ROA = \beta_1DPS_{it} + \beta_2firm_{size}_{it} + \beta_3Leverage_{it} + e_{it} \dots \dots \dots (1)$$

generated .32 Naira as return on asset for the period of 2015-2021.

Table 2 also shows the mean score of 2.66 for dividend per share. This means that

on average deposit money banks in Nigeria (DMB's) pays dividend of N2.66 to their shareholders, which signify that DMB's has a relatively higher dividend payout ratio. The minimum DPS is 0.01 and maximum is N17.3. Firm size had a

mean, minimum and a maximum value of 8.29, 6.02 and 9.746 respectively. LVRG had a coefficient of 0.165, 0.028 and 1.1324 respectively. This is an indication that 57% of firms total capital was financed by external sources (DEBT)

**Table 3: Correlation Matrix**

Variable	DPS	FIRM SIZE	LEVERAGE	ROA
DPS	1.000			
FIRM SIZE	0.1230	1.000		
LEVERAGE	-0.0738	-0.0082	1.000	
ROA	0.9846	0.0079	-0.0716	1.000

Table 3 presents the result of the correlation matrix; the correlation coefficient shows the extent and the direction of the relationship between the studied variables. Table 4 shows that the inference did not suffer from

multicollinearity problems since the highest coefficient is 0.785 between ROA and DPS. A correlation of less than 0.9 could not pose severe multicollinearity problems (Hair et al., 2014).

**Table 4 Regression Result**

Variable	Coefficient	Std Error	T-statistic	Prob
DPS	0.119	0.003	39.66	0.000
FIRM SIZE	-0.354	0.007	-50.57	0.000
Leverage	0.003	0.046	0.065	0.956
Con	0.298	0.056	5.32	0.000

Table 4 presents the results on the relationship between dividend policy and financial performance of listed deposit money banks in Nigeria. However, the presence of heteroscedasticity and serial correlation in data contained will bias the inferences in conventional least square is used. It has been reported that estimating a linear panel-data model without correcting the serial correlation could bias the standard error and leads to less efficient results (Drukker, 2003). Hence, Feasible generalized least squares (FGLS). Azim

and Khan (2022) suggest that FGLS corrects the model error complication by specifying a model of heteroscedasticity and model of serial correlation. The outcome of the regression indicated that divided per share (DPS) is positive and significantly related with financial performance ( $\beta 0.119$ ,  $P < 0.00$ ). This implies that dividend payment influences the financial performance of listed deposit money banks in Nigeria. This result is consistent with prior evidence (Usman and Olorunnisola 2019: Nurudeen and Yusuf 2020: Kanakriyah

2020: Bhuiyan and Ahmad (2022); Porterfieldahi et al., 2021 Allen and Michaely (1995) that dividend policy is positively related to performance of company.

For the control variables, evidence as shown in Table 4 indicates that firm size is negative and significantly related with firm financial performances ( $\beta$  -0.354,  $P < 0.00$ ). This result implies that larger firms are so reluctant about improving performance. This is consistent with Lin et al. (2019) who found a negative relationship between the size and performance. On the other hand, the result of leverage reveals a positive but insignificant relationship with financial performance ( $\beta$  -0.003,  $P < 0.956$ ), which suggests that high leverage is not likely to improve financial performance of deposit money banks firms in Nigeria. This is consistent with the findings of Idris et al. (2020) and Akhtar et al. (2014).

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## 5.0 Conclusion and Recommendations

Based on the panel data of 7 listed deposit money banks in Nigeria for the period 2015-2021, this study examined the effect of dividend policy on a firm's financial performance. The result indicates that DPS significantly and positively influence the financial performance of listed DBM's in Nigeria. Thus, this finding is important to shareholders and potentials investors. The research is limited to listed deposit money banks and thus generalization could not be made on all the listed companies in Nigeria. The study therefore recommends that deposit money bank in Nigeria should endeavor to increase the level dividend payout ratio as that will increase the confidence of shareholders.

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