



DIVIDEND PAYOUT STRATEGIES AND FINANCIAL PERFORMANCE NEXUS: A PANEL STUDY OF QUOTED DEPOSIT MONEY BANKS IN NIGERIA

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ABSTRACT

The dividend policy of the deposit money banks in Nigeria has been a subject of scrutiny in financial literature. The regulatory provisions often conflict with economic consideration and the expectations of the shareholders. The restrictions of banks with high non-performing loans from paying dividend negates the expectations of the shareholders to employ regular dividends as a hedge against inflation and a weakened national currency. This research examines the influence of dividend policy of ten Nigerian Deposit Money Banks, selected based on their significant market presence and representation of the broader banking sector and their financial performance. It employs data from the banks' annual reports, the Nigerian Exchange Group and the National Bureau of Statistics and utilised random effects to estimate the influence of dividend strategies on financial performance. Findings indicate that dividend payout ratio exerts a significant negative influence on earnings per share, suggesting that higher payout ratios are associated with lower financial performance. Conversely, the relationship between dividend yield and earnings per share is weak but significantly positive, indicating that higher dividend yield is limited in improving financial performance. However, dividend per share has no significant impact on earnings per share. Additionally, the impact of firm size on earnings per share is negative and significant, which depict inefficiencies in the operations of larger banks. The study recommends that banks should focus on maintaining a moderate payout ratio to maintain adequate funds for reinvestment. Further, larger banks should strive to achieve operational efficiency by optimizing the processes and procedures as well as strategic resource allocation to enhance profitability.

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(DMBs) and resulted in their listing on stock

1. Introduction

The reforms in the Nigerian banking sector during the 2000s significantly restructured the financial structure of Deposit Money Banks

exchanges. This development has drawn the attention of investors to the banks' dividend

policy in relation to their financial performance.

Dividend policy is a crucial corporate finance decision that balances distributing earnings as dividends against retaining them for internal growth, serving more as a tool for wealth distribution than wealth creation (Abdul-Hakeem & Bambale, 2016). Distributing dividends reduces retained earnings, potentially limiting funds for investment, growth or debt repayment (Njoku & Lee, 2024). A well-defined dividend policy can attract investors, enhance shareholder value, and influence a firm's cost of capital (Balasubramanian, 2024). Therefore, financial managers must ensure fairness in dividend distribution, balancing current shareholder's returns with the firm's future growth.

In the Nigerian banking sector, which has undergone significant reforms, such as the 2004 regulation induced consolidation, and has faced challenges, like the COVID-19 pandemic's induced six percent revenue decline (Marcu, 2021), dividend policy decisions are particularly impactful. Consequently, financial performance, measured by profitability ratios; Return on Assets (ROA), Return on Equity (ROE), Earnings Per Share (EPS), and price-to-earnings ratio; reflects how well banks utilise shareholder wealth (Musa et al., 2020; Nuruddeen et al., 2020).

The banking sector is a highly regulated sector, which aims to ensure financial stability and depositors' protection. The regulation mandates banks to have an appropriate

liquidity threshold and significant capital adequacy in order to avoid the collapse of the financial sector through contagion (Mustapha & Abdullahi, 2023). Additionally, unlike other sectors, banks face specialised regulatory constraints on dividend policies to protect solvency (Johari et al., 2020). This regulatory environment provides a critical context for this study.

Several studies have focused on the dividend policy strategies of the deposit money banks in Nigeria with emphases on asset quality, return on equity as a single variable, dividend policy and corporate governance' linkages, bank growth as a measure of performance and the payout ratio determinants (Ademola et al., 2024; Jinadu et al., 2025; Najim, 2025; Odum & Asielue, 2024). However, this research is on the relationship between financial performance (with EPS as the dependent variable) and dividend policy (dividend payout ratio [DPR], dividend yield [DY], dividend per share [DPS], as well as Firm Size [FSIZE]).

Theoretically, higher DPR may enhance short-term profitability but risks reducing reinvestment and future growth, while higher DY attracts investors but has a limited direct impact on profitability. Also, payout of dividend stimulate confidence in investors, however, other factors are substantially responsible for its performance. Again, in literature, big banks are prone to experiencing operational challenges, which potentially reduce profitability despite ample resources for dividends. Nonetheless, the bank management's strategies on dividend

allocation remain vital for balancing retained earnings, capacity and sustainable growth.

Dividend policies are vital indicators of financial health and shareholder value in Nigerian banks, impacting stability and performance. Findings on this critical relationship vary in existing literature. While firm size and profitability was found to be the dominant determinant of dividend payout ratio (Ademola et al., 2024), others find no significant impact on firm value (Amimakmur et al., 2024).

Despite statutory requirements for annual dividend payments from net profits (Uzoka, 2020), inconsistent compliance by some banks raises concerns about dividend policy viability during economic uncertainties (Abdullahi et al., 2020). Ugwu et al. (2020), Mustapha and Abdullahi, (2023) and Kanakriyah (2020) found a positive association between DPS, DPR, DY, and firm size and return on equity, yet, the degree and directions of the relationship between the above variables and earnings per share of the Nigerian banks have not been ascertain in literature.

To this effect, some studies (Kanakriyah, 2020; Ugwu et al., 2020; Mustapha & Abdullahi, 2023; Abdullahi et al., 2020) employed multiple methodological approaches using various variables to proxy dividend policy, while adjusting for investors' outlook long term performance in view of regulation and the constraint in the economic environment.

Thus, while existing studies have concentrated on separate variables such as dividend payout

ratios and dividend yields, incorporating multiple essential factors, such as dividend per share, firm size and earnings per share, has remain underexplored in literature. Additionally, many prior studies were conducted before the COVID-19 pandemic, overlooking the profound economic shifts and regulatory changes that have since influenced banking practices.

The foregoing provides the basis for the following inquiries: What is the effect of dividend payout ratio on earnings per share of DMBs in Nigeria? How does dividend yield affect earnings per share of DMBs in Nigeria? What is the effect of dividend per share on earnings per share of deposit money banks? How does Firm size affect earnings per share of deposit money banks?

Thus, the study's hypotheses are stated in the null form and tested at the 5% significant level:

H_{01} : there is no significant effect of dividend payout ratio on earnings per share of DMBs

H_{02} : there is no significant effect of dividend yield on earnings per share of DMBs

H_{03} : there is no significant effect of dividend per share on earnings per share of DMBs

H_{04} : firm size has no significant effect on earnings per share of DMBs

This research focuses on the influence of dividend policy on the financial performance of the following quoted DMBs whose data are publicly available: Zenith Bank Plc, Guaranty Trust Holding Company Plc, First Bank of Nigeria Limited, United Bank for Africa Plc, Access Bank Plc, Stanbic IBTC Holdings Plc,

Wema Bank Plc, Ecobank Nigeria Plc, Sterling Bank Plc and Fidelity Bank Plc. The study's scope spans 2013 to 2023 enabling an analysis of both historical trends and recent developments, including the impact of major economic events such as the COVID-19 pandemic and regulatory changes within the Nigerian banking industry. The persistent regulatory framework of the monetary authority on banks' dividend policies against the shareholders' constant expectations dividend payout amid huge profit margins declarations by these banks provide the motivation for this work.

2. Literature Review

2.1 Conceptual Review

Dividend Policy

One of the most important concepts in literature, which directly affect firm's performance is dividend policy. It entails how firms allocate profits between shareholder, by way of dividend payment, and retained earnings for growth (Baker & Weigand, 2015). This policy impacts a company's capital structure, investment expectations and the need to service share capital (Onyeogo, 2017). Firms may avoid cash payment as a dividend strategy and opt for bonus issues to manage its liquidity position, and to signal to potential investors and the market of management's confidence in future profitability and financial stability (Rehman, 2016).

According to Udoka et al. (2022), dividend policy is associated strategic investment actions, with direct implication for long-term performance and risk management.

Additionally, Eriksen and Fylkesnes (2023) noted that investor sentiments as well as stock prices may potentially be influenced by distribution of dividend, which reflects on the evaluation of the firm's securities and its stability. Also important are taxes and cultural considerations, as tax administrations in many countries as well as local preferences reflects on dividend practices (Amiram et al., 2019). The ongoing debate between prioritising short-term income versus long-term growth through dividend policy presents a challenge for organisations striving to maintain financial stability and shareholder satisfaction (Njoku & Lee, 2024).

This study employed dividend payout ratio, dividend yield, dividend per share and firm size as independent variables since these variables represent important metrics in dividend policy strategies, vis-à-vis the critical stakeholders' expectations. Investors' sentiments are heightened when these parameters increase, and they serve as the major fulcrum on which many investment decisions are made.

Financial Performance

Financial performance is a critical factor in a company's operations, influencing the optimal utilisation of capital and signals the capacity of the firm to create wealth for the shareholders. A stable financial performance is an indication that a company is competitive and tend to attract investors (Fajaria & Isnalita, 2018). Financial performance of a company is examined based on size, leavearge and the

quality of financial reporting, including cash flow statements, that provide deep understanding into the firm's financial health (Setiawan & Ekadjaja, 2023). The financial ratios derived from these reports, most importantly the liquidity ratios, are the benchmarks to measure the firm's financial capacity to meet their obligation without disrupting operations (Nuruddeen et al., 2020). In addition, the net earnings, comprising both the retained earnings and dividends, are the indicators of financial performance - balancing reinvestment for growth and shareholder wealth optimisation through dividend distribution. These conceptual interactions has significant ramifications for the banks in attracting investments under the regulatory induced capital raising framework, as well as for the capital adequacy and overall stability of the Nigerian banking sector.

In this study, earnings per share of the selected DMBs depict the main financial performance metric that the investors use to compare assets in their portfolio – to determine whether their investments in the DMBs yield better returns compared to other alternative investments.

2.2 Theoretical Review

The Bird-in-the-Hand Theory, Signaling Theory and Dividend Relevance Theory, provide the intellectual basis for this work. The bird-in-the-hand theory, which was propounded by Gordon and Shapiro in 1956, posits that investors tend to favour dividends payout because of its reliability over the prospect of capital appreciation because of its unpredictability, since dividends provide

immediate and tangible returns (Njoku & Lee, 2024). Investors' intuitively believe that payment of regular dividends by firms is a sign of financial stability and strength and reduction in the cost of capital (Pontoh, 2015). On the other hand, the Signalling Theory, propounded by Spence in 1973 posits that irregular dividend policies communicate vital information to the market about the firm's potentials given information asymmetry. Contextually, dividend payout communicates to the market that the management is confident of future earnings, which often result in upward movement of the stock price. On the contrary, a reduction in dividend communicate to the investors that the company could be experiencing financial difficulty, which typically lead to decline in stock price (Ben Salah & Jarboui, 2024; Spence, 1973; Wruck, 1994). Nonetheless, there are other factors (tax considerations and liquidity constraints) that can affect dividend decisions, which is a limit to the pure signaling effect (Manos, 2002).

Further, the dividend relevance theory, which was developed by Walter (1963) and Gordon (1959, 1962), provides an understanding of the direct influence of dividend policy on firm value through the influence of the relationship between a firm's rate of return and its equity costs. Investors tend to favour higher dividends when dividend levels are held constant over time, which often result to higher prices of stock (Walter, 1963). The Gordon's model emphasize that companies that pay regular dividend often have lower cost of equity because investors usually demand a

premium to compensate for the uncertainty associated with retained earnings (Wogu et al., 2023). The theory has support from early studies which highlight the positive correlation between dividends and firm value (Williams, 1938; Lintner, 1956), thereby emphasising dividend as a crucial component of firm valuation (Baker & Powell, 1999).

For listed deposit money banks on the Nigerian Exchange (NGX), the Signalling Theory provides the theoretical underpinning for analysing how dividend policies impact financial performance and shareholders' wealth, given the presence of information asymmetry, market imperfections and prevalent investor behavior in emerging markets (Lee et al., 2024; Owoeye et al., 2022).

2.3 Empirical Review

Empirical studies in advanced economies offer valuable understanding into the connection between dividend policy and stock market liquidity.

Ali Taher and Al Shboul (2023) utilised multivariate panel regression to evaluate data from the largest 411 non-financial firms in the United States. The study aimed to determine whether dividend payouts influence stock liquidity and if this relationship exhibit asymmetry, in addition to assessing the impact of the Global Financial Crisis (GFC) on this interaction. Findings indicated that dividend policy exerts negative influence on stock liquidity, which is a validation of the liquidity-dividend theory. Moreover, stock liquidity responds asymmetrically to dividend changes:

that is, higher dividends tend to decrease liquidity to a lesser extent than lower dividends would increase it, which confirms the signaling theory. Complementing these findings, Bhuiyan and Ahmad (2022) investigated how financial restatements impact on dividend payments in the US from 2001 to 2017. The results showed a positive association. It indicate that firms tend to increase dividend payouts after financial restatements, using dividends as a tool for reputational recovery after adverse events.

Empirical studies on dividend policy determinants in developing markets revealed varying effects of firm-specific factors on dividend decisions. Anuar et al. (2023) investigated quoted companies in the Malaysian exchange and found that debt financing (debt-to-equity ratio) and liquidity (current ratio) exert insignificant influence on the dividend policy proxy - dividend payout ratio. The result revealed that profitability, corporate tax and firm size impacted positively and significantly on dividend payout, which suggest that bigger profitable firms that have higher tax burdens tend to pay higher dividends. In a similar vein, Laksmiwati et al. (2023) examined Indonesian IDX 30 firms and discovered that firm size positively affects dividend payout ratio, while financial leverage and market valuation influence current price ratio but fail to impact payout ratio. This signals the intricate roles of financial structure and firm characteristics in shaping dividend policies in emerging markets.

Studies on the Nigerian market reveal mixed but insightful relationships between dividend policy and financial performance, particularly within consumer goods companies and deposit money banks.

Ademola et al. (2024) studied the interactions between interest and exchange rates, GDP, inflation rates and dividend payout ratio of DMBs. Also included in the study are the relationships between firm size, liquidity, leverage and profitability as independent variables and dividend payout out as the DV. Results indicate that all the bank specific factors except leverage had positive relationship with the DV, while two macroeconomic factors, GDP and exchange rate and the other two (interest rates and inflation) have positive and negative influences on DPR, respectively.

Using dynamic panel estimation technique, Jinadu et al. (2025) examined the relationships between board diversity, firm size and age as independent factors and dividend payout as dependent variable of banks listed in Nigeria, South Africa, Kenya and Gabon. The results of the study indicate that board diversity has positive influence on dividend strategies in these countries.

In contrast, Blessing and Nwokoye (2021), using signaling theory and analysing data from 18 banks between 2016 and 2020 with descriptive and inferential statistics including Auto-Regressive Distributed Lag (ARDL) regression, find that dividend payout ratio negatively affected return on equity while dividend yield had no significant impact.

Murimi and Mungai (2021) found that dividend payout did not affect financial performance, retained earnings had a positive significant impact, and dividend yield positively influenced financial performance of insurance firms listed on the Nairobi Securities Exchange from 2013 to 2018.

The aim of this study is to address these conceptual gaps by providing an overall examination of the relationships among dividend payout ratio, dividend yield, dividend per share, and firm size and the financial performance proxied by earnings per share, within the Nigerian banking sector. Modelling these factors into a unified framework allows the study to enhance the understanding of how dividend policies can be optimised to improve financial performance.

3. Methodology

The research design for this study is an ex-post facto research design. It uses panel econometric technique to analyse cause-and-effect relationships between dividend payout ratio, dividend yield, dividend per share, firm size (proxies for dividend policy), and earnings per share, which is financial performance. Data for this study, covering the period from 2013 to 2023, were obtained from annual reports and financial statements of listed deposit money banks, and publications from the Nigerian Exchange Group, and the National Bureau of Statistics (NBS).

3.1 Model specification

This research examines the relationship between the dividend strategies and financial performance of selected DMBs in Nigeria. In

order to meet the broad objectives, the model of Blessing and Nwokoye (2021) was adapted.

The original model was specified as: $FP = f(DPO, DY)$

FP represents Financial Performance; DPO = Dividend Payout ratio; DY = Dividend Yield.

This study expands the variables and extended covered period. Therefore, this study presents the model as: $EPS = f(DPR, DY, DPS, FSIZE)$

EPS represents Earnings per Share (Financial Performance); DPR = Dividend Payout Ratio; DY = Dividend Yield; DPS = Dividend Per Share; FSIZE = Firm Size.

The is specified in econometric function as:

$$EPS_t = \beta_0 + \beta_1 DPR_t + \beta_2 DY_t + \beta_3 DPS_t + \beta_4 LFSIZE_t + \mu_t$$

LFSIZE is Log of Firm Size; β_0 = constant; β_1 - β_4 = Shift parameters; t = time series; μ = Stochastic term. *A priori*, it is expected that β_1 - $\beta_4 > 0$

4.1 Descriptive Analysis

3.2 Estimation Technique and Data Analysis

The research adopts panel regression for estimation. Model selection was guided by the F-test and Hausman test to ensure the most appropriate method is used for analysing the relationship between the variables. Correlation, regression, and descriptive analysis were employed, with the model estimated using the Random Effects technique.

4. Results and Discussion

The summary statistics showing a brief description of the variables as well the result of the estimation tests are presented below to examine the effect of the independent variables on the earnings per share of the listed deposit money banks in Nigeria.

Table 1: Summary statistics

Variable	Mean	Std. Dev.	Maximum	Minimum	Skewness	Kurtosis	Jaq Bera	Prob
DPS	107.42	347.71	1583.02	0.0000	3.3341	12.104	518.611	0.2342
DPR	22.64	69.73	279.19	0.0000	2.9174	9.6752	327.518	0.6784
DY	4.053	12.930	66.456	0.0000	3.256	12.606	561.183	0.0672
EPS	3.137	3.5749	21.4700	0.0600	2.7768	13.119	555.180	0.0935
LFSIZE	21.7080	1.9958	27.599	18.138	0.9633	4.5967	26.0900	0.000

Source: Authors' computation (2025)

Table 1 reveals the characteristics of the study's variables. The mean of Dividend Per Share, which measures the average amount distributed to shareholders for each share, is 107.42. Nonetheless, the high standard deviation, with the coefficient, 347.71, indicates substantial variability in dividend payments among the banks. This variability is

further reflected in the range, 0.0000, 1583.02 for the minimum and maximum values, respectively. These suggest zero dividend payout to high dividend distributions across banks. The positive skewness (3.3341) indicates a distribution heavily tilted towards lower DPS values, while the kurtosis of 12.104 signifies a leptokurtic distribution, with

prevalent extreme values. The Jarque-Bera test result confirms a significant normal distribution.

The Dividend Payout Ratio, which represents the proportion of profits distributed as dividends, averages 22.64. The standard deviation of 69.73 suggests notable differences in payout practices across banks, with a maximum ratio of 279.19 and a minimum of 0.0000. The skewness coefficient, 2.9174, indicates a tendency for lower payout ratios, while the kurtosis of 9.6752 and a non-significant Jarque-Bera test value highlight normality.

Dividend Yield, i.e. dividend payments to stock prices, averages 4.053 with a dispersion of 12.930. The yield spans a minimum of 0.0000 to a maximum of 66.456, showing considerable disparity among banks. Similar to DPS and DPR, the positive skewness (3.256) and high kurtosis (12.606) reveal a distribution dominated by lower yield values with infrequent outliers. The Jarque-Bera test result confirms that the series follows a normal distribution.

Earnings Per Share, a measure of profitability, averages 3.137 and a dispersion of 3.5749, implying that the variability among the banks

is moderate. The maximum EPS is 21.4700, while the minimum is 0.0600. A positive skewness of 2.7768 shows that most banks report lower EPS values, while the kurtosis of 13.119 suggests a distribution with a high frequency of extreme values. The Jarque-Bera test result connotes a significant deviation from non-normality.

Firm Size, represented with the natural log of total assets, has a mean of 21.7080 and a minimal standard deviation of 1.9958, suggesting lower variability compared to other variables. Again, the range is narrower, minimum of 18.138 and maximum of 27.599 in comparison to other variables. The distribution shows a slight positive skewness of 9633 and moderate kurtosis coefficient of 4.5967, with the Jarque-Bera test also confirming normality.

Overall, the analysis reveals that dividend policy variables, DPS, DPR, and DY, alongside performance indicators like EPS and firm size, exhibit significant normal distributions among DBMs. This suggests diverse financial techniques and performance outcomes in the industry, which may influence the effect of dividend policies on financial performance.

4.2 Correlation analysis

Table 2: Correlation matrix

Probability	EPS	DPS	DPR	DY	FSIZE
EPS	1.000000				
DPS	0.190054	1.000000			
	0.0582	-----			
DPR	0.147452	0.948059	1.000000		
	0.1432	0.0000	-----		
DY	0.185802	0.978108	0.939662	1.000000	
	0.0642	0.0000	0.0000	-----	
FSIZE	0.118789	0.032847	0.014138	0.036612	1.000000

0.2391	0.7456	0.8890	0.7176	-----
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Source: Authors' computation (2025)

Table 2 presents the relationships between the study's variables. The analysis reveals both the strength and direction of these relationships, showing important relationships between profitability, dividend policy, and organisational characteristics of the selected quoted DMBs in Nigeria.

Earnings per share, which represents profitability, demonstrates weak positive correlations with all the other variables. Its relationship with DPS is the strongest relative to others, 0.190054 ($p = 0.0582$), indicating a marginally significant positive association. This implies that banks with larger profits have higher dividends per share, albeit the relationship is not strong generally. Similarly, EPS shows weak positive correlations with DPR (0.147452, $p = 0.1432$) and DY (0.185802, $p = 0.0642$), indicating that increased profitability slightly influences both the share of profits paid as dividends and the returns on investment for shareholders. The correlation between EPS and FSIZE, at 0.118789 ($p = 0.2391$), is the weakest, indicating no relationship between profitability and firm size within this sample. Dividend Per Share, which represents the actual dividends declared per share, exhibits strong and statistically significant positive correlations with both DPR and DY.

The correlation with DPR is 0.948059 ($p = 0.0000$), while the correlation with DY is 0.978108 ($p = 0.0000$). These findings indicate a robust relationship between dividends per share, the proportion of earnings allocated to

dividends, and the returns on investment for shareholders. Banks that distribute large dividend per unit are prone to having higher payout ratios and offer greater dividend yields. However, the correlation between DPS and FSIZE is very weak, at 0.032847 ($p = 0.7456$), suggesting that the scale of a bank's operations does not significantly influence the amount distributed as dividends per share. DPR, which measures the share of income distributed as dividends, also shows a strong and statistically significant positive correlation with DY (0.939662, $p = 0.0000$). This relationship reflects the underline connection between dividend payouts and shareholder returns, as higher payout ratios directly lead to higher dividend yields. However, the correlation between DPR and FSIZE is negligible, at 0.014138 ($p = 0.8890$), indicating that firm size has no substantial impact on how much earnings are allocated as dividends.

Dividend Yield, as a measure of shareholder returns relative to share price, mirrors the strong positive relationships observed between DPS and DPR, reinforcing the interdependence among these dividend policy measures. There is a weak correlation between DY and FSIZE, at 0.036612 ($p = 0.7176$), which suggest a lack of determining power of size on dividend yields. Finally, FSIZE, which represents the scale of a bank's operations, exhibits weak and statistically insignificant correlations with all other variables in the analysis. These results signal that firm size does not influence profitability, dividend

policy or shareholder returns among the selected banks.

4.3 Model Estimation

From the results of the Hausman test (co-ef = 8.17; $p = 0.147$), the null hypothesis of random

effects of no systematic difference between the coefficient of both random effects is not rejected because the result is not statistically significant. Hence, random effects technique is considered suitable for estimating the model.

Table 3: Random effect estimation

Random Effect				
Variable	Coefficient	Std. Error	t-Statistic	p-value
LDPR	-0.279537	0.070121	-3.986504	0.0001
DPS	0.000784	0.001108	0.707425	0.4812
DY	0.012239	0.029784	-3.410939	0.0421
LFSIZE	-0.155835	0.074798	-2.083420	0.0402
C	3.658701	1.681942	2.175284	0.0324
	R-squared	0.227386		
	Adj. R-squared	0.200062		
	Walid-Test	6.65		
	Prob (Walid Test)	0.247643		
	Durbin-Watson stat	1.162221		

Source: Authors' computation (2025)

Table 3 presents the results of the random effect estimation, which shows that DPR has a negative and statistically significant influence on EPS (-0.279537, $p = 0.0001$). This indicates that higher DPR in the past is related to lower financial performance, likely due to reduced retained earnings for reinvestment.

DPS exhibits insignificant positive association with EPS (0.000784, $p = 0.4812$). This suggests that changes in dividend per share have no substantial influence on the financial performance of the DMBs.

DY presents a significant positive influence on EPS: 0.012239 ($p = 0.0421$). This implies that higher dividend yields are associated with better financial performance, potentially reflecting efficient profit-sharing practices.

LFSIZE has a negative and significant relationship with EPS, as demonstrated by -0.155835 ($p = 0.0402$). This finding suggests

that larger bank sizes may be linked to decreased financial performance, possibly due to operational inefficiencies or complexities associated with managing large-scale institutions.

The positive coefficient (3.658701) and p-value (0.0324) connotes that the constant term (C) is positive and significant. The results is an indication that a baseline financial performance level independent of the explanatory variables.

The model has an R-squared value of 0.227386, indicating that approximately 22.7% of the variation in EPS is explained by the included variables. The adjusted R-squared is slightly lower at 0.200062, reflecting the model's overall fit. Also, the Durbin Watson probability of 1.162 shows the absence of autocorrelation in the variables employed for the study.

4.4 Diagnostic tests

Table 4: Diagnostic tests

Tests	Statistics	Probability
-test of Homogeneity	1.08	0.036
Autocorrelation test	0.091	0.769
Heteroskedasticity test	270.4	0.710
Average VIF	9.33	

Source: Authors' computation (2025)

The results of the diagnostic tests in Table 4 indicate a statistical significance with F-test of homogeneity at 1.08 ($p = 0.03$). Therefore, the null hypothesis of no heterogeneity among the variables is rejected. Consequently, the panel OLS estimation technique, which assumes homogeneity, cannot be suitable for the model, rather, the fixed effects and random effects techniques, which assumes heterogeneous are considered.

The results of autocorrelation test show the statistic and p-values as 0.091 and 0.769, respectively, indicating no autocorrelation in the model, the null hypothesis of no autocorrelation is not rejected. The table also present the result of the Breusch-Pagan Heteroskedasticity test with the statistic value of 270.0 and p-value of 0.710. The result connotes that there is no heteroskedasticity issue in the model - the null hypothesis of equal variance of the estimated model residuals is not rejected, since the statistic is not significant. The result of variance inflation factor (VIF) shows an average value of 9.33, which means that the VIF values of the coefficients of the model surround the value of 9.33 and less than 10, which is less than the rule of the thumb, hence the model has no severe multicollinearity.

4.5 Test of hypotheses

The findings from the random-effect estimation provide the following results for the stated hypotheses: The test of the null hypothesis (H_{01}) of no significant effect of dividend payout ratio on earnings per share of deposit money banks reveals that a significant negative effect was exerted by the Lagged DPR on earnings per share (-0.279537, $p = 0.0001$). It connotes that an increased payout ratio leads to a reduced financial performance. The result of the test of the null hypothesis (H_{02}), which states that there no significant effect of dividend yield on earnings per share of DMBs shows that dividend yield exerts a positive influence on earnings per share (0.012239, with a $p = 0.0421$), which suggests that better dividend yields contribute to improved financial performance.

Similarly, the null hypothesis (H_{03}) of no significant effect of dividend per share on earnings per share of DMBs. With a coefficient of 0.000784 ($p = 0.4812$), the hypothesis is not rejected. This indicates that dividend per share exerts a positive but weak influence on earnings per share.

Findings of the test of null hypothesis (H_{04}) stating that firm size has no significant effect on earnings per share of DMBs reveal a significant negative association between the independent variable, firm size, and the

dependent variable, earnings per share. At -0.155835 ($p = 0.0402$), we do not accept the hypothesis at 0.05 level of significance. The result signifies that firm size exerts a significant but negative influence on earnings per share. There is a tendency for a decrease financial performance of bigger banks because of operational inefficiencies.

4.6 Discussion of Findings

The study highlights the intricate relationship between the dividend strategies of the Nigerian banks and their financial performance. It emphasizes the trade-off and delicate balancing between dividend distribution and profitability. The findings of the study suggest that higher dividend payout ratio as a proxy for dividend policy leads to reduction in profitability – earnings per-share. This is an indication of a complicated balancing acts of dividend distribution to meet shareholders' goals of higher returns on their contribution and retaining earnings for reinvestment in growth, technology and operational efficiency, key elements in maintaining sustainable competitiveness, which is consistent with the findings of Blessing and Nwokoye (2021).

Again, the study's estimation reveals that dividend per-share exhibits minimal correlation with profitability, but dividend yield exerts a modest positive association, which signals efficiency in operation and steady returns that boosts investor confidence and bank reputation. This outcomes supports the works of Murimi and Mungai (2021).

Findings also show that larger banks tend to experience declining profitability, likely as a

consequence of growing operational costs and complexity of scaling, which highlights the need for improved efficiency, resource optimisation and technological adoption to counteract these challenges. This finding is agrees with the findings of Laksmiwati et al. (2023).

The positive coefficients of DPS and DY in the results (though insignificant) are consistent with *a priori* expectations of the study. They also validate the Signalling Theory of Spence (1973), which underpins this study. Increased DPS and DY signal to the market that the managements of DMBs are confident in the future profits of the banks. On the contrary, the negative coefficient LDPR and LSIZE negate the *a priori* expectations. This is an indication of a negative association between dividend strategies of DMBs and the financial performance. Also, the results negates the Signalling Theory and align more with Pecking Order Theory. These may be due to the regulatory control of dividend distribution by the Central Bank of Bank on DMBs.

5. Conclusion and Recommendations

The study provides an understanding of the sync between dividend policy and profitability among banks in Nigeria. The findings showa positive association between dividend DPS and DY and Earning Per-Share on the one hand, and a negative correlation between Dividend Pay Out Ratio and Size with Earnings Per Share on the other hand. It reveals that as a larger share of performance are paid out as dividends, profitability drops

sharply, while increased payout also increase dividend per share and dividend yield.

These outcomes suggest that focusing very heavily on distributing high dividend to shareholders reduces the amount that is available for reinvesting into business core work or investing in new technology or growth opportunities. Hence, it might hinder sustained long term earnings. This raises particularly important issues about effectiveness of dividend policies that prioritize high shareholder satisfaction with missed evaluation of impacts on future profitability.

Given the findings of the study, the followings are suggested as policy recommendations:

- i. Deposit money banks should adopts flexible dividend payout policy that ensure payments only after financing feasible projects in order to avoid crowding out earnings growth. In addition, the management of the deposit money banks should adopt clear communication strategy that signals their emphasis of sustainable dividend payment linked to earnings growth and not arbitrary high levels.
- ii. In the same vein, in view of information asymmetry in the market, managements of the DMBs should continue to maintain a good level of dividend payment to continue to signal positive confidence in the banks' future returns in order to further attract investment funds and deepen their own access to the market.
- iii. The managements of DMBs should employ efficient approach to manage dividend yield levels in order to align with broader strategic objectives. They should adopt continuous performance appraisal strategy to connect dividend policies with firm size and profitability, which allows for data-driven adjustments that respond to dynamic market conditions and organisational goals.
- iv. Bigger banks should focus on efficient operations with investment in cost-reduction activities as well as streamlined processes. Digital technologies adoption stimulates operational efficiency and often assist in managing the complexities inherent in their scale.

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