IMPACT OF DIVIDEND POLICY ON THE PROFITABILITY OF NIGERIAN LISTED MANUFACTURING FIRMS

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Abstract
This article examines the nexus between dividend policy and the performance of some selected manufacturing companies in Nigeria. The research covers six (6) selected manufacturing companies over a period of five (5) years, from 2020 to 2024. Data for the study were generated from the annual reports of the selected companies. The data were analysed by means of regression analysis, correlation, and descriptive statistics to explain the effect of independent variables on dependent variables. Specifically, the model was estimated using the Driscoll-Kraay standardized regression technique. The model was selected to examine the potential cross-sectional dependence inherent in the panel data. The results reveal a positive and significant impact of dividend per share (DPS) and dividend payout ratio (DPR) on the manufacturing companies' financial performance. This outcome implies that firms that pay a high dividend payout ratio and higher dividend per share are more likely to have improved performance. On the other hand, the outcome discloses that dividend yield has no significant influence on financial performance. Thus, the research concludes that firms should continue to pay sustainable dividends that will encourage investors' decisions.

Keywords: Dividend policy, profitability, manufacturing firms, dividend payout, return on assets, Nigeria

1.0 Introduction
Payment of dividends to shareholders has continued to remain a central issue in corporate finance due to its influence on shareholder wealth, investment decisions, and firm performance. Manufacturing firms face high capital intensity, changing input costs, and macroeconomic instability; the decision to distribute or retain earnings carries strategic implications (Aivazian et al., 2003). Some scholars, like Usman,Lestari and Sofyan (2024), show that gooddividendpolicy (DIV_POL) is one of the important aspects for the company's financial decision and is considered a good company's way of giving back to investors. In Nigeria, dividend policies are

shaped further by regulatory reforms, including the Companies and Allied Matters Act (CAMA, 2020) and recent Finance Acts that affect corporate payout practices.

The theoretical argument on dividend policy is still drawing the attention of both scholars and practitioners. On this note, the seminal work of Miller and Modigliani (1961) maintains that DP is irrelevant when there are perfect markets; however, imperfections such as taxes, asymmetric information, and transaction costs challenge its assumptions, especially in developing economies. Conversely, signalling theory (Bhattacharya, 1979) and the bird-in-hand theory (Gordon, 1963) assert that dividend decisions convey information about future performance and reduce investor uncertainty. Gordon thinks that investors are more inclined to receive their return inform of dividend that waiting for future capital gains. The theory supported low risk hypothesis.

Although dividend payment is important in guaranteeing investment. In Nigeria, companies are faced with high and volatile economic conditions, with operating costs, especially energy costs and fluctuating exchange rates. Thus, the decision whether to pay dividends or to retain the profit for future expansion has remained a critical decision for firms. This trade-off between satisfying firms' needs and those of shareholders. Only a few studies examine the link between dividend policy and the profitability of companies in emerging economies. Existing studies in the area have focused on other sectors, with no study examining the manufacturing sector (e.g., Akpadaka et al., 2024; Ezema et al., 2022).

Despite extensive research, theories, and empirical findings on the relationship between dividend policy and profitability remain mixed. This paper offers strong contributions to the existing body of knowledge. First, our article provides contextual findings for manufacturing companies, which have peculiar characteristics that is different from services and the financial sector. Second, most of the existing research applied a static regression model to test the relationship between dividend policy and performance; this study employed a standardized regression model that is robust to both cross-sectional dependence and autocorrelation. Therefore, the current research aims to address this gap by providing evidence focusing specifically on Nigeria's manufacturing. Hence, this study examines the impact of dividend policy indicators on profitability among listed manufacturing firms in Nigeria from 2020 to 2024.

2.0 Literature Review

Dividend policy refers to managerial decisions regarding the distribution of earnings to shareholders and the proportion retained for reinvestment (Pandey, 2015). Common indicators include Dividend per Share (DPS), Dividend Payout Ratio (DPR), and Dividend Yield (DY). Profitability, the ability of an organisation to generate earnings from its assets or equity, is commonly measured using Return on Assets (ROA), Return on Equity (ROE), or Earnings per Share (EPS). Analysis by Umar (2023) on how dividends affect firms' market value, adding investment opportunity as an interaction variable. The study population is 102. The authors discovered a significant positive influence of DPR, DP, and DY on firms' value. On the contrary, the results reveal that MPS only changed DP and DY. It is further discovered that IO does not moderate the relationship between dividend policy and firms' value.

Theoretical Dividend Irrelevance Theory, Bird-in-Hand Theory and Signalling Theory were reviewed. As for the Dividend Irrelevance Theory, Miller and Modigliani (1961) posit that dividend policy does not affect firm value under conditions of perfect capital markets. However, such conditions rarely exist, particularly in emerging economies such as Nigeria. While for Bird-in-Hand Theory, according to Gordon (1963), investors prioritise dividend payments over uncertain future capital gains. This theory argues that firms with higher dividend payouts are valued more favourably by investors. Signalling theory (Bhattacharya, 1979; Ross, 1977) posits that dividend payments serve as signals of firm profitability, as managers possess private information about future performance and signal confidence through stable or increasing dividends.

Empirical evidence on the relationship between dividend policy and financial performance is associated with significant inconsistency. For example, scholars such as Akpadaka et al. (2024) and Yegon, et al. (2014) suggested that dividend policy influences the financial performance of companies in Nigeria and Kenya. Their findings supported the dividend relevance theory that payment of higher dividends matters.

Empirically, it is argued that dividends are still the reason why many investors purchase shares to cash out returns from the company's profit (Hafeez & Attiya, 2019). It is also suggested that future dividends are more likely to vary, as such dividends are only subject to the income notion of the firms. More so, empirical research has yielded mixed but insightful findings on the dividend–profitability relationship. While some studies affirm a positive relationship suggesting that profitable firms tend to pay higher dividends, others argue that high dividend payments may reduce the funds available for reinvestment, potentially constraining growth (Uwuigbe et al., 2012; Adefila et al., 2024).

TheImpactofdividend paymenton firms' performance and valuewas also investigated by Emeh, Nwosu,Okonkwo,Idika,andIkechukwu(2024). The study considered the association between dividend payments and the market value of firms in Nigeria. Using a sample of sample of some selected firms across the general sector and extracted data from annual reports and accounts. The authors uncover that managers prefer profitable projects in order to sustain dividend payments.

Studies such as Uwuigbe et al. (2012), Amidu and Abor (2015), Tijjani and Sani (2016) and Yegon et al. (2014) and Hermansyah (2023) established that dividend policy affects corporate financial performance. Specifically. The authors reported a positive relationship between dividend policy and firm profitability. Furthermore, a study by Abdullah and Muchran (2026) argued that dividends served as a moderator on firms' value and performance.

Conversely, Velnampy et al. (2014) and Mulanazar et al. (2016) find negative or insignificant relationships, suggesting the need for context-specific evidence. Moreover, Okoh etal.(2025) examined the impact of dividend policy on the value of manufacturing firms in Nigeria, using a sample of 10 years between 2014 and 2023. The outcome indicates that dividends help in increasing the growth of the firms and help in achieving the overall goal of shareholders. Similarly, Inuwa (2025) established that dividend payout ratio and dividend per share have no significant influence on the performance of companies in Nigeria.

Overall, the review indicates that dividend policy remains a major indicator in corporate financial management. Most of the existing studies reported a positive relationship between dividend policy and profitability. On the other hand, some scholars supported the argument of dividend-irrelevant theory. These inconsistencies justify the need for further research, especially in the manufacturing sector, which is characterized by high operating costs and fluctuating exchange rates that affect its profitability. Hence, our study relies on the dividend-relevant theory to hypothesize as follows:

H_1: Dividend Policy has a significant positive relationship with the financial performance of listed manufacturing firms in Nigeria.

3.0 Methodology

This research employed correlational research to find the association between dividend policy and the profitability of companies in the manufacturing sector in Nigeria. The study's population consists of all manufacturing firms. However, because of data availability, six companies were selected using purposively due to consistent availability of financial data between 2020 and 2024. The justification for the selection of manufacturing companies with a limited sample is to provide a contextual outcome related to the manufacturing sector since previous studies examined all listed companies.

Table 1: ***Sample Companies***

S/N	Company	Year of Incorporation
1	Cadbury Nigeria Plc	1965
2	Dangote Sugar Refinery Plc	2005
3	Dangote Cement Plc	1992
4	Unilever Nigeria Plc	1923
5	Vitafoam Nigeria Plc.	1962
6	Bua Cement	2014

Source: Authors compilation, 2026.

Consistent with other studies, this study considered including Return on Assets (ROA) as a proxy of profitability. Whereas for Independent Variables, Dividend per Share (DPS), Dividend Pay-out Ratio (DPR), and Dividend Yield (DY). While Firm Age (AGE), Firm Size (FS), and Leverage (LEV) are included as control variables. These variables are therefore defined in functional form as:

$$ROA_{it}=\beta 0+\beta 1DPS_{it}+\beta 2DPR_{it}+\beta 3DY_{it}+\beta 4FS_{it}+\beta 5AGE_{it}+\beta 6LEV_{it}+\varepsilon_{it}$$

Driscoll-Kraay standard errors were used to address heteroskedasticity and autocorrelation.

4.0 Results Analysis

Table 2 presents the descriptive statistics results which provide summary statistics for the variables of the study.

Table 2:
Descriptive Statistics

Variable	OBS	Mean	Min	Max	Skewness	Kurtosis
ROA	30	5.889	-30.679	43.792	-0.590	4.729
DPS	30	7.410	0.000	39.609	1.780	4.352
DPR	30	68.301	-50.590	273.171	0.608	2.238
DY	30	0.024	0.000	0.068	0.581	1.941
FS	30	10.285	0.023	13.711	-1.924	5.144
AGE	30	46.167	12.000	101.000	0.572	2.119
LEV	30	0.623	0.000	4.396	4.059	20.795

Source: Generated by the Research from Stata Software, 2026.

From the Table 2, the mean ROA (5.89%) indicates a modest average profitability among the sampled firms, although the negative minimum value (-30.68) suggests that some firms experienced losses. The kurtosis (4.73) indicates slight leptokurtosis, meaning that most observations are close to the mean with a few extreme outliers. As for the independent variables, Dividend per Share (DPS) has a mean of 7.41, showing that the sampled firms, on average, distributed moderate dividends. The positive skewness (1.78) suggests that while most firms paid low to moderate dividends, a few distributed relatively high dividends. Also, Dividend Pay-out Ratio (DPR) shows a mean of 68.30%, implying that a large portion of earnings is returned to shareholders. The wide range (-50.59 to 273.17) indicates substantial variability among firms in dividend policies. Moreover, Dividend Yield (DY) has a small mean (0.0237), showing low dividend returns relative to share price.

In Table 3, we present the outcome of the correlation along with the variance inflation factor (VIF) for all the explanatory variables. In general, the value disclosed absence of a multicollinearity problem among all the variables since non of the VIF is more than the threshold value of 10 as suggested by prior scholars.

Table 3:
Correlation Analysis

	ROA	DPS	DPR	DY	FS	AGE	LEV	VIF
ROA	1							2.9
DPS	0.2399	1						3.82
DPR	0.2633	0.4308	1					2.73
DY	0.1126	0.8043	0.4965	1				4.99
FS	-0.0124	0.1191	-0.6003	-0.0323	1			2.31
AGE	-0.0658	-0.3281	-0.5058	-0.6243	0.3651	1		2.27
LEV	-0.2474	0.4263	0.239	0.4266	-0.0688	-0.2191	1	1.27

Source: Generated by the Research from Stata Software, 2026.

As shown in Table 3, DPS and DPR showed positive correlations with ROA, while leverage and firm age were negatively correlated, indicating declining profitability with increased debt and

older firm age. Linear modelling assumes that data are expected to be free from multicollinearity, autocorrelation and cross-sectional dependency (Hair, Black, Babin, & Anderson, 2014; Pesaran, 2021). Therefore, the outcomes of multicollinearity and the variance inflation factor validate the reliability of our data. The results of this Wooldridge test are also presented in Table 4.

Table 4:
Regression and Diagnostics' Test Results

Variable	Coefficient	Drisc/Kraay Std. Err.	T	P>t
DPS	2.6680	0.3900	6.8400	0.0020
DPR	0.0240	0.0060	4.0100	0.0160
DY	305.4872	595.4451	0.5100	0.6350
FS	-0.8371	0.2657	-3.1500	0.0350
AGE	-6.0912	1.2597	-4.8400	0.0080
LEV	-8.5646	1.6447	-5.2100	0.0060
CONSTANT	272.3916	45.2248	6.0200	0.0040
R-Squared	0.4802			
Prob > F	0.0002			
BPLM Test for Random Effects	1.0000			
Hausman Specification Test	0.1486			
Groupwise Heteroskedasticity	0.0000			
Pesaran's Cross-Sectional Independence Test	0.3680			

Source: Generated by the Research from Stata Software, 2026.

The Breusch-Pagan Lagrange Multiplier (BPLM) Test indicates a p-value of 1.0000, suggesting that random effects are not appropriate; hence, a fixed-effects or robust model should be used. The Hausman Test result ($\chi^2 = 8.14$, $p = 0.1486$) shows that the difference between fixed and random effects is not statistically significant at the 5% level, implying that the random-effects model would be suitable. However, the Modified Wald Test reveals significant heteroskedasticity ($p = 0.0000$), while the Pesaran's Test ($p = 0.7373$) indicates no cross-sectional dependence. To address heteroskedasticity, the study applies Driscoll-Kraay standard errors, which are robust to both heteroskedasticity and autocorrelation.

Table 4 present the regression results using Driscal Kraay Standard Error to address the problems of cross-sectional dependency and heteroskedasticity. The Driscoll–Kraay standard errors are robust to both heteroskedasticity and autocorrelation. The regression model explains 48.0% of the variation in Return on Assets (ROA), as indicated by the R-squared value (0.4802). The F-Statistic probability (0.0002) confirms that the overall model is statistically significant at the 1% level.

The Independent Variables which include; Dividend per Share (DPS) has a positive and significant coefficient (2.6680, $p = 0.002$), suggesting that higher dividend payments enhance firm profitability. This supports the notion that stable dividend payments signal financial strength and attract investors, leading to improved performance. Dividend Payout Ratio (DPR) is also

positively significant (0.024, p = 0.016), indicating that firms that distribute a larger proportion of earnings to shareholders tend to be more profitable. This finding aligns with the signalling theory, which posits that dividend policies convey information about firm quality. Dividend Yield (DY), though positive, is not statistically significant (p = 0.635), implying that dividend yield does not have a meaningful direct impact on profitability in this context. The outcome supported previous studies that dividend policy influences the performance of firms. The outcome also supported our hypothesis that dividend policy has a significant positive influence on the profitability of companies in Nigeria.

The outcome of DY and firm's profitability indicates a positive but insignificant. The findings may be as a result of fluctuations in the exchange rate, which also affect the market price of stock. The findings support signalling and bird-in-hand theories, indicating that DPS and DPR positively influence profitability. Dividend Yield's insignificance suggests market-based dividend returns do not directly enhance firm earnings. Negative effects of firm size, age, and leverage align with evidence of structural inefficiencies and high financing costs in Nigerian manufacturing firms.

5.0 Conclusion and Recommendations

The study concludes that dividend policy significantly affects profitability among listed manufacturing firms in Nigeria. DPS and DPR positively influence ROA, while DY does not. Firm-specific characteristics, particularly leverage, size, and age, negatively impact profitability. It is recommended that there is a need to maintain sustainable dividend payout policies to enhance investor confidence and profitability; Reduce excessive leverage through improved capital structure management; Improve operational efficiency in older and larger firms to counter declining profitability; Strengthen corporate governance to ensure efficient dividend decision-making and Regulators should stabilise the economic environment to support manufacturing growth.

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