

Dividend Policy and Stock Market Performance in Nigeria

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ABSTRACT

The link between dividend policy and stock market performance has become important in finance because of its potential implications for investors' confidence. This study examined the dividend policy and stock market performance in Nigeria, specifically banks with international authorisation. Quantitative design was adopted using longitudinal panel data covering thirteen years, from 2012 to 2025. The study comprised all seven banks with foreign affiliation in Nigeria, which constituted both the population and sample. Data utilized were gotten from the financial and annual reports of the sampled banks. Fixed-effect panel least squares regression technique was employed for data analysed. The findings revealed that dividend per share (DPS) and dividend payout ratio (DPR) had significant positive relationships with stock market performance, proxied by stock prices. This suggests that higher DPS and DPR the more critical factor enhancing investor confidence and stock price performance. Conversely, dividend yield (DY) indicated significant negative relationship with stock prices, implying that an increase in dividend yield does not necessarily result in improved stock market performance. The study concluded that dividend policy decisions of deposit money banks with international authorisation can significantly influence their stock prices. It recommended that banks should maintain or progressively increase DPS and DPR where supported by adequate profitability, liquidity and regulatory capital, while formulating sustainable dividend policies that provide attractive dividend yield to shareholders.

Keywords: Dividend Policy, Dividend Per Share, Dividend Payout Ratio, Dividend Yield, Stock Prices

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I. Introduction

Dividend policy continues to attract considerable attention among academics, investors, financial analysts, corporate managers, and practitioners in finance because of its implications for corporate valuation and investment decisions (Ed-Dafali et al., 2023; Diedrich et al., 2022). Dividend policy defines the ratio of earnings circulated to investors as dividends and the part taken aside to funding of investment opportunities in the nearest future (Huang et al., 2026). Jarva (2026) noted that firms maintaining stable dividend policies often experience greater investor confidence and improved market valuation because dividend payments serve as important signals regarding future profitability and financial stability.

Dividend policy proxied with dividend per share (DPS), dividend payout ratio (DPR) and dividend yield (DY) have been frequently employed indicators for evaluating how firms reward shareholders. Stock price, which represents the market value of a firm's shares at a given space of time remains one of the most widely accepted indicators of stock market performance (Ali & Hegazy, 2022; Ed-Dafali et al., 2023; Liu & Yin, 2026). Dividend policy cuts across all sectors. In the financial sector like banks, dividend policy is particularly significant because deposit money banks are expected to maintain adequate capital for regulatory compliance while simultaneously satisfying shareholders' expectations for consistent dividend payments (Huang et al., 2026; Diedrich et al., 2022; Liu & Yin, 2026).

Several extant studies have conducted dividend policy and stock performance in different perspectives among listed firms in Nigeria (for instance: Ogundajo, 2021; Oladimeji & Sontan, 2025; Oniyama et al. 2021; Uche et al. 2025; Udoka et al. 2022). There are limited studies from Nigeria on dividend policy and stock market performance with case of banks which this study examines. Closely related studies from Nigeria were Yahaya and Bello (2026) who examined dividend policy and shareholders' wealth among deposit money banks in Nigeria; Offia and Asogwa (2026) investigated dividend policy and performance of listed deposit money banks in Nigeria; and, Nworie et al. (2024) focused on signaling theory in action: How dividends affect shareholder investment decisions in Nigerian deposit money banks. To best of the researchers' knowledge,

existing studies have not specifically investigated dividend policy and stock market performance with exclusive focus on banks with foreign affiliation in Nigeria. This represents a notable gap which the study seeks to address. Accordingly, the study examines dividend policy and stock market performance, measured by stock prices, with particular emphasis on listed banks with foreign affiliation in Nigeria.

II. Literature Review

2.1 Conceptual Review

Stock Market Performance

Stock market performance refers to how much the value and returns of assets traded on a stock exchange fluctuate over time (Akinlo & Olayiwola, 2021). Stock market performance can be assessed using several indicators, including stock price, share returns, market capitalisation, price-to-earnings ratio and market indices. Adedokun et al. (2023).stated that stock price as measure of stock market performance is particularly useful at firm level because it denotes the market's estimation of firm's shares and incorporates investors' expectations regarding its future performance. According to Huang et al. (2026), the market value at which a firm's shares are dealt with on a stock exchange represents investors' evaluation of the company's anticipated future earnings and dividend prospects.

According to Oladimeji and Sontan (2025), the stock price is the current market price of a firm's shares, established by the forces of supply and demand interact in the capital market. According to Ed-Dafali et al. (2023), the stock price is the monetary value that the financial market places on a company's shares based on expectations about profitability, dividends, growth prospects, and risk.

Dividend Policy

Dividend policy, according to Huang et al. (2026), is a company's choice about how much of its established earnings after interest and tax are given to shareholders as cash dividends and the possible amount retained for future investments in order to maximize shareholder wealth. Dividend policy, according to Ed-Dafali et al. (2023), is the strategy framework that controls how businesses divide profits between retained earnings and dividend payments while striking a balance between long-term corporate growth and shareholder expectations. Dividend policy, according to Mohapatra and Panda (2022), is management's financial choice about the timing, quantity, and distribution pattern of dividends to shareholders while accounting for firm-specific features and corporate governance. Dividend policy is a mechanism for distributing profits but also as a strategic financial decision that communicates management's expectations regarding future performance.

Measures of Dividend Policy

Dividend Per Share

According to Huang et al. (2026), dividend per share is the sum of cash payment that a business declares for each outstanding ordinary share, which represents the direct cash return that shareholders receive. Dividend per share, according to Oladimeji and Sontan (2025), is estimated by sharing the entire dividend declared to all the entire shareholders according to shares that were remaining during the accounting period. According to Ehimare et al. (2022), dividend per share is a dividend policy indicator that indicates a company's ability to regularly reward shareholders by calculating the real dividend allotted to each issued ordinary share.

Dividend Payout Ratio

The percentage of a company's net earnings that are given to shareholders as dividends rather than kept for reinvestment is known as the dividend payout ratio, according to Krishnan and Lang (2026). The dividend payout ratio, which is often computed as dividends per share divided by earnings per share, is defined by Oladimeji and Sontan (2025) as the proportion of earnings given to common shareholders as dividends. According to Ehimare et al. (2022), the dividend payout ratio is a measure the amount a firm's profits are given out as dividends rather than being kept in-house for potential future investments.

Dividend Yield

Dividend yield, as defined by Huang et al. (2026), is the annual dividend paid per share represented as a proportion of the current market price per share, signifying the income return that shareholders receive on their investment. Dividend yield, which measures the rate of return obtained from dividends alone, is defined by Oladimeji and Sontan (2025) as the proportion of the dividend per share to the current market price per share. According to Ehimare et al. (2022), dividend yield is a financial metric that displays the proportion given out in relation to the prevailing market price per share.

2.2 Theoretical Review

Signalling Theoretical framework provides explanation of how dividend policy can influence investors' perceptions and, consequently, stock market performance. The theory was formally developed in the context of dividend signalling by Bhattacharya (1979), while John and Williams (1985) and Miller and Rock (1985) subsequently advanced the information-content perspective of dividend decisions. Signalling Theory is based on the premise that managers of organisations have adequate knowledge regarding organisation's present financial condition and future prospect than the external investors and shareholders. Therefore, dividend decisions can serve as signals through which management communicates private information to the market. In relation to this study, dividend policy, measured by DPS, DPR and DY, may provide investors regarding the financial health status and strength, profitability and nearest future earnings progress of the organization like deposit money banks.

When shareholders noticed increase in dividend they have no option than to give credence and confidence of managers' commitment to generate sustainable earnings and cash flows. Conversely, a reduction or omission of dividends may be perceived as a signal of weakening profitability, liquidity constraints or unfavourable future financial prospects (Kim et al., 2021; Ali, 2021; Azeem et al., 2023; AlGhazali et al., 2024; Nworie et al., 2024). The relevance of Signalling Theory to stock market performance, proxied by stock prices, lies in the market's response to information conveyed through dividend decisions.

2.3 Empirical studies

Huang et al. (2026) examined the relationship between dividend policy and stock prices using a large panel dataset comprising 24,422 firms listed in the United States over the period 1992–2021. The study employed panel data estimation, using log-linear and Box–Cox regression techniques. The empirical study showed that dividend per share and retained earning exerted a significant positive relationship with stock prices.

Uche et al. (2025) investigated the effect of dividend policy on the market share prices of listed industrial goods companies in Nigeria over the period 2014–2023. The analysis technique used was panel pooled regression and outcome found that DPS and DPR had significant positive effects stock market prices. However, DY indicated significant negative relationship with market stuck prices.

Oladimeji and Sontan (2025) examined the relationship between dividend policy and stock price behaviour among firms listed on the Nigerian Exchange from 2010 to 2021. The study found that DPR had a significant positive relationship with stock market performance measured with stock prices.

Norshafizah et al. (2023) examined the effect of dividend policy on the share price performance of companies listed on the FTSE Bursa Malaysia 100 (FBM100). The study covered 56 sampled firms over the period 2011–2020 and employed a panel regression estimation. Outcome indicated that DPR had no significant influence on share prices, whereas DY exerted a significant negatively related on share prices.

Siong et al. (2023) investigated the effect of dividend policy on share price volatility among 376 non-financial firms listed on Bursa Malaysia from 2003 to 2021. The statistical technique tool used was regression and outcome showed that higher DY and DPR were associated with lower changes in share price instability.

Oniyama et al. (2021) examined the relationship between dividend policy and market performance among listed manufacturing companies in Nigeria. Statistical tool employed was panel regression and found that DPS, DY yield and DPR had significant positive association with per share price in the market.

Dibia (2021) investigated the influence of dividend policy on shareholders' wealth using a sample of nine companies in Nigeria. Generalised panel least squares regression was utilized and showed that dividend policy such as DY significantly affected market price per share negatively, DPS exerted significantly positive influence on share price, while DPR was insignificantly negatively exerted on market share price.

Alajekwu and Ezeabasili (2020) examined the effect of dividend policy on stock price volatility among firms quoted on the Nigerian Stock Exchange over an eleven-year period from 2006 to 2016. The study analysed data from 60 firms by employing regression as the statistical techniques. The study revealed that DPR significantly affected stock market instability positively among non-financial companies, while DPR is statistical insignificant but exerted positive relationship with financial companies.

III. Methodology

This study employs ex post facto type of research covering longitudinal period of thirteen (13) years from 2012 to 2025 panel data of the total seven (7) banks with foreign affiliation in Nigeria. Data were collected from the financial statements and accounts of the 7 deposit money banks with international authorisation

This study adopted model developed by Huang et al (2026), Dibia (2021 and Oniyama et al. (2021). The model is expressed in functional and explicit form as:

$$SP=f(DPS, DPR, DY)$$

$$SP_{it} = \beta_0 + \beta_1 DPS_{it} + \beta_2 DPR_{it} + \beta_3 DY_{it} + \varepsilon$$

1

2

Where:

SP=Stock price as a measure of stock market performance of bank with international authorisation “i” at time “t”

B=Constant

B1to B3=Coefficients

DPS=Dividend per share (measured as dividing the entire dividend allowed to owners by the total shares that were remaining during the accounting period [Oladimeji & Sontan, 2025]) of bank with international authorisation “i” at time “t”

DPR=Dividend payout ratio (measured as the percentage of firm's net profit that are given to owners as dividends rather than kept for reinvestment [Krishnan & Lang 2026]) of bank with international authorisation “i” at time “t”

DY=Dividend yield (measured as the annual dividend paid per share represented as a percentage of the current market price per share [Huang et al., 2026]) of bank with international authorisation “i” at time “t”

ε =Stochastic disturbance

Apriori expectation: DPS, DPR and DY>0

IV. Interpretation of Results and Discussion of Findings

Table 1: Panel Least Squares Regression Estimation (Dependent Variable: Sustainability Reporting (SR))

Variables	Fixed Effect Model Coefficient t-stat (PV)	Random Effect Model Coefficient t-stat (PV)
C	17.9767 7.7757 0.0000***	12.2956 6.5642 0.0000***
DPS	6.7943 10.2762 0.0000***	10.2983 36.3076 0.0000***
DPR	12.5379 2.1171 0.0373**	9.8685 2.6790 0.0088***
DY	-92.0654 -4.73996 0.0000***	-160.3930 -10.4177 0.0000***
R-Squared (R ²)	0.9444	0.9184
Adjusted R-squared (R̄ ²)	0.9382	0.9156
Standard Error of regression	3.2744	3.8254
F-statistic	152.7449	326.5280
Prob(F-statistic)	0.0000	0.0000
Durbin-Watson statistic	1.9543	1.8349
Hausman Test (sig. level)	35.7715 (0.000)	
Observations	98	98

Source: Researchers' computation (2026) (*E-view 10*) (*See appendix for detailed results*)

(Significant at probability values of: ***for 1%, ** for 5% and * for 10% significance level)

The result of Hausman test which is statistically significant with Chi-square value of 35.7715 at probability value of 0.000(1%), suggested that fixed effect panel least square regression is more appropriate for interpretation and discussion of findings. The coefficient of determination (R-squared [R²]) with value of 0.9444, implied that over 94% discrepancies in the dependent variable which is stock prices used as proxy for stock market performance were accounted by the independent variables which dividend policy proxied with DPS, (DPR and DY, while the remaining 6% accounted by the error term. Similarly, adjusted coefficient of determination of 0.9382 suggested that approximately 94% of the variations in the stock prices were accounted by the explanatory variables proxied with DPS, DPR and DY; while the remaining approximately 6% variations in stock prices is attributable to factors outside the model and the stochastic error term. The overall goodness-of-fit (F-statistic) value of 152.74 is higher than the standard error of regression of 3.2744 indicating that the general result is significant as such there exist direct linear relationship with the dividend policy and stock market performance. However, dividend policy proxied by DPS and DPR are positively statistically significant, while DY is negatively statistically significant. Meanwhile, the Durbin Watson value of 1.9543 suggested absence of autocollinearity which by implication, the result suitable for prediction and undertake fundamental d

V. Discussion of Findings

Firstly, the result for dividend per share (DPS) in Table 1 of the fixed effect panel regression, revealed a positive coefficient in relation to stock market performance, proxied by stock prices. This implies that a rise in DPS can bring corresponding improvement in the stock prices of banks with foreign affiliation in Nigeria. The outcome is in consonance with the *a priori* anticipation. The statistical significant of the DPS coefficient further indicates that it has a significant positive association with stock market performance. This finding is consistent with the results of previous studies, including Huang et al. (2026), Oniyama et al. (2021) and Uche et al. (2025), which reported that dividend per share has a significant positive relationship with stock prices.

Secondly, dividend payout ratios (DPR) in Table 1, of the fixed effect panel least squares regression showed a positive coefficient in relation to stock market performance, measured by stock prices. This indicates that a rise in DPR is associated with a corresponding rise in the stock prices of deposit money banks with international authorisation in Nigeria. The finding conforms to the *a priori* expectation and demonstrates that DPR has a statistically significant positive association with stock market performance. The finding is supported by Oniyama et al. (2021) and Alajekwu and Ezeabasili (2020), who reported a significant positive relationship between dividend payout ratio and stock market performance. It is also consistent with Oladimeji and Sontan (2025), who found that a rise in DPR significantly enhanced stock prices. However, the finding differs from Dibia (2021), who reported an insignificant negative effect of dividend payout ratio on stock market performance. Similarly, Siong et al. (2023) and Boda and Jerabek (2024) reported findings suggesting that dividend payout may be associated with lower share prices or reduced stock valuation.

Finally, dividend yield (DY) obtained from the fixed-effect panel least squares regression model revealed a negative coefficient in relation to stock market performance, proxied by stock prices. This implies that a rise in DY can bring about a decrease in the stock prices of banks with foreign affiliation in Nigeria. The result conforms to the *a priori* anticipation of the study. Since the coefficient of DY is statistically significant, the finding indicates that DY has a significant negative association with stock market performance. This result is consistent with Dibia (2021), and Alajekwu and Ezeabasili (2020) who found that dividend yield had a significant negative relationship with share price.

VI. Conclusion and Recommendations

Dividend policy in relation to stock market performance in Nigeria has attracted a great deal of concern. The findings of this study demonstrate that DPS and DPR are significant drivers of stock market performance measured by stock prices, among deposit money banks with international authorisation in Nigeria. The study therefore concludes that the manner in which deposit money banks with international authorisation in Nigeria determine and communicate their dividend decisions can influence their stock prices.

Thus, the recommendations are as follow:

1. Companies especially deposit money banks with international affiliation should adopt stable and sustainable dividend per share. Banks should endeavour to maintain or progressively increase DPS when supported by adequate profitability, liquidity and regulatory capital.
2. Management of companies especially Deposit Money Banks should maintain an optimal payout ratio that appropriately balances shareholders' dividend expectations with the need to retain earnings for business expansion, investment, capital strengthening and that may increase investors' confidence and attract more foreign investors to .
3. Deposit Money Banks should formulate dividend policies that provide an attractive and sustainable dividend yield to shareholders. Management should monitor the relationship between dividends paid and the prevailing market price of the bank's shares to ensure that dividend returns remain competitive and capable of attracting investors. Nevertheless, banks should avoid attempting to create an excessively high dividend yield through unsustainable dividend distributions, as this could weaken their retained earnings and long-term financial capacity.

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