

## EFFECT OF PROFITABILITY ON CAPITAL STRUCTURE AND DIVIDEND POLICY OF LISTED COMMERCIAL BANKS IN NIGERIA

By

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### ABSTRACT

*This study investigated the moderating effect of profitability on the relationship between capital structure and dividend policy among listed commercial banks in Nigeria. The research was driven by conflicting findings in previous studies and a lack of focused analysis within the banking sector. The study employed a quantitative research design and used panel data from commercial banks listed on the Nigerian Exchange Group (NGX) over eleven years within the period (2014-2024). The dependent variable, dividend policy was proxied by dividend payout ratio, while the independent variable, capital structure was measured by debt to equity ratio. Profitability, represented by return on asset, was examined as a moderating variable. Firm size and firm age are introduced as control variables. The analytical techniques used was regression analysis. The findings revealed a significant negative relationship between the debt-to-equity ratio (DTE) and the dividend policy and also Profitability, (ROA) has no significant impact in moderating the relationship between Debt-to-Equity Ratio (DTE) and dividend policy. The recommendation of the study is that banks should avoid excessive debt accumulation, as high leverage undermines their capacity to pay dividends and may erode investor confidence and operational efficiency and sustainable profitability should be prioritized to support dividend stability and long-term shareholder value.*

**Key word:** Profitability, Payout, Dividend, Debt, and Equity.

### 1.0 INTRODUCTION

Dividend policy has been widely debated. The Modigliani and Miller (M&M) theorem, 1958–1960, suggests that in perfect markets, dividend payments are irrelevant, as shareholders can generate cash by selling shares. In contrast, Signaling Theory (1970)

posits that dividends convey positive information about a firm's financial health, attracting investors and supporting capital structure.

Regarding capital structure, M&M argue that debt or equity financing does not affect firm value if profits are sufficient. The Pecking Order Theory (Stewart & Nicholas, 1984) emphasizes using internal funds first, resorting to debt or equity only when necessary, to minimize risk and enhance profitability.

Profitability plays a central role, as it enables firms to pay dividends, service debt, retain earnings, and signal financial stability, thereby strengthening the positive relationship between capital structure and dividend policy (Muhammad & Farah, 2025). In other words, a well-managed capital structure supports dividend payments when a firm is profitable, while profitability ensures that dividends are sustainable.

Commercial banks in Nigeria generate profits mainly through interest and service charges, contributing to employment and economic growth. Between 2019–2023, banks declared N1.75 trillion in dividends from N6.8 trillion in profits (Idika, 2024). However, CBN recapitalization requirements (2024) forced banks to suspend dividends, bonuses, and certain investments to strengthen capital bases, ensuring long-term stability but potentially undermining shareholder confidence.

Given the regulatory environment and high financial risk of Nigerian banks, findings from studies in other sectors or countries, such as Muhammad & Farah (2025) in Indonesia, cannot be directly applied. Hence, studying Nigerian commercial banks is necessary to assess how profitability moderates the relationship between capital structure and dividend policy in this sector.

Based on this, this study analyses the moderating role of profitability in variables of capital structure and dividend policy of listed commercial banks in Nigeria. In particular, the study attempts to address the following questions:

- i. How does the debt-to-equity ratio influence dividend policy of listed commercial banks in Nigeria?
- ii. To what extent does profitability moderate the relationship between debt-to-equity ratio and the dividend policy of listed commercial banks in Nigeria?

## 2.0 LITERATURE REVIEW

This section reviewed the concept, empirical findings and theoretical framework relevant to this study as follows:

### Conceptual Review

The conceptual review viewed different definitions of dividend policy, capital structure and profitability as expounded by different scholars.

### **Concept of Dividend Policy**

Dividend policy is the decision between dividend payment and reinvestment by companies (Adesanya & Adejuwon, 2024) and (Nicholas et al. 2023). Also, Diyah and Dwi (2023), defines dividend policy as a system that states how much money should be distributed as dividends and how much money should be kept to the company advantage. The study considers dividend policy as a strategic choice of a company as to whether to pay out the profits, as dividends to the stockholders or reinvest the profits.

### **Concept of Capital Structure**

Bawu and Musa (2024), views capital structure as the structure of sources of funds that are utilized to fund assets and activities of a company. Similarly, Yahaya et al. (2023) describe capital structure as the combination of both debt and equity that firms employ in financing both long-term and short-term activities. Capital structure therefore can be considered as the proportionality of debt and equity used by the companies in financing their operations.

### **Concept of Profitability**

Ibrahim et al (2023) defines profitability as a state of being profitable. To back it up, Fitria et al. (2024) says it is an indicator of how much a company can make profit based on the activities that it operates, and it is usually presented as ratios. Still on the chain, Khaled et al. (2023) considers profitability as the capacity of an object to have earnings that surpass the expenses, which lead to a net income that is positive. Thus, the study views profitability as the capacity of a firm to make profits out of the operations after the payment of all expenses.

Through the conceptual review, it is apparent that the dividend policy, capital structure and profitability are intertwined. Dividend policy affects profit distribution or retention, capital structure affects the choice of financing mix, which supports the dividend decision, and profitability affects the financial background on which the decisions to finance and dividend payout are made.

### **Empirical Review**

Empirical review has generated diverse results as to the relationship between capital structure and dividend policy with some reports of positive effects, others negative effects, and some reports of no significant relationship.

Muhammad and Farah (2025) tested the moderating role of profitability between the capital structure and dividend policy of Indonesian consumer non-cyclical firms (2019-2023, 155 firm-years observations). Dividend policy was also measured using panel regression with Dividend Payout Ratio (DPR), capital structure with Debt-to-Equity Ratio, Debt-to-Asset Ratio, and Asset Structure, and profitability with Return on Assets (ROA). The authors discovered that high Debt-to-Equity Ratio has positive relation

with dividend policy and profitability reinforces the relationship. The results are unique to the consumer non-cyclical industry in Indonesia.

Also, Ratih et al. (2024) examined the relationship between capital structure and dividend policy in six Indonesian consumer goods companies (2017–2021). Using multiple linear regression, Dividend Payout Ratio (DPR) was the dependent variable, and Debt-to-Equity Ratio represented capital structure. The study found that Dividend Policy is not significantly influenced by Debt-to-Equity Ratio. The study was conducted in another country using only (6) six consumer companies as sample.

Besides, Edokpa et al. (2024) investigated Nigerian agriculture firms (2013–2023) to assess the effect of capital structure on dividend policy. Using panel regression, Dividend Payout Ratio (DPR) was the dependent variable, and Debt-to-Equity Ratio the independent variable. The study revealed that Debt-to-Equity Ratio negatively and significantly affects Dividend Policy. Although the study was carried out in Nigeria, it was limited to agriculture firms.

Similarly, Windi and Parasol (2023) examined the relationship between capital structure and dividend policy in 71 manufacturing companies listed on the Indonesia Stock Exchange from 2017 to 2021. Using panel data regression, Dividend Policy was proxied by Dividend Payout Ratio (DPR), and Capital Structure was measured by Debt-to-Equity Ratio (DER). The study found that DER has a significant negative effect on dividend policy, indicating that higher leverage reduces dividend payouts. The study was conducted in Indonesia.

In the same vein, Yahaya et al. (2023) investigated the association between capital structure and dividend policy in five listed manufacturing firms in Nigeria over the period 2017–2021. Panel least squares regression was applied, with DPR as the dependent variable and DER, Debt-to-Asset Ratio, and Total Liability as proxies for Capital Structure. The study revealed that DER has a negative but statistically insignificant effect on dividend policy, suggesting leverage may not strongly influence dividends in this context. Although the study was conducted in Nigeria, the focus was on the manufacturing industry and not the financial industry.

Also, Ishaku et al. (2020) analyzed capital structure and dividend policy among six listed Nigerian conglomerates from 2012 to 2019. Using robust Generalized Least Squares (GLS) regression, DPR represented dividend policy, while DER and Debt-to-Asset Ratio measured capital structure. The study concluded that DER has a negative and significant relationship with DPR, implying that higher leverage reduces dividend payouts in conglomerate firms. Though the study was conducted in Nigeria but it focused conglomerate companies not financial sector.

### **Theoretical Framework**

There are two significant theories that will be used to support this study: the Modigliani and Miller (M&M) Theory and the Pecking Order Theory.

## **Modigliani and Miller (M&M) Theory**

### **Capital Structure:**

M&M (1958, 1961) assert that in an ideal market, a firm's value is independent of its capital structure. The mix of debt and equity financing does not affect the total worth of the firm; instead, firm value is driven by operating income. This view is supported by Fasua and Abobo (2023), who studied capital structure choices in different financial contexts.

### **Dividend Policy**

According to the M&M Dividend Irrelevance Proposition, dividend policy does not impact firm value under perfect market conditions. Investors can create their own cash flow by selling shares if needed. Firms should prioritize profitable investment decisions over dividend payouts, a perspective supported by Askar (2021) and Khaled et al. (2023).

### **Profitability:**

M&M argue that a firm's profitability is determined by its investment decisions, not its financing methods. However, real-world market imperfections such as taxes, bankruptcy costs, and agency problems can influence financing choices. This is corroborated by Dede, Ahfi, and Relita (2021), who examined the effect of financial ratios on firm profitability.

In ideal markets, M&M suggest that capital structure, dividend policy, and financing decisions do not affect firm value or profitability; real-world deviations arise due to market imperfections.

### **Pecking Order Theory**

Proposed by Myers and Majluf (1984), the Pecking Order Theory suggests that firms follow a hierarchical approach to financing to minimize costs and information asymmetry. Firms prioritize funding investments using internal sources such as retained earnings, then debt financing, and issue equity only as a last resort. This hierarchy is based on the premise that external financing is costlier and riskier than internal financing, helping preserve financial stability and maximize shareholder value. Fasua et al. (2023) emphasize that external financing reduces firm value relative to internal financing.

The study adopts the Modigliani and Miller (M&M) theory as the underlying framework because it provides a comprehensive explanation for all variables used in the research.

### 3.0 METHODOLOGY

The study adopts a quantitative research design, employing panel data analysis to examine the moderating impact of profitability on the relationship between capital structure and dividend policy. The population of this study consists of all 14 commercial banks listed on the Nigerian Exchange Group (NGX) as of the study period as at December, 2024. The sample after the application of filter is thirteen (13) banks. The study will also employ the statistical tool of STATA 11.2 for data analysis and test of hypotheses.

The study made use of three (3) variables to include the dependent, independent and moderating variables. The dependent variable for this study is the dividend policy proxied by dividend payout ratio, the independent variable is capital structure proxied by debt-to-equity. While the moderating variable is profitability proxied as return on asset with firm size and firm age as control variables.

**Table 1: Variables and their Measurement**

Variables	Acronym	Measurement	Source(s)
Dividend Payout Ratio	DPR	(Total Dividend / Net Income) * 100	Edokpa, Farouk and Uyagu (2024)
Debt to Equity Ratio	DTE	(Total Debt / Shareholders' Equity)	Edokpa, Farouk and Uyagu (2024)
Firm Size	FS	Natural Log of Total Assets	Eduard and Zulfa, (2023)
Firm Age	FA	Number of years since establishment	Eduard and Zulfa, (2023)
Return on Assets	ROA	(Net Income / Total Assets) * 100	Muhammad and Farah (2025) and Ibrahim et al (2023)

The model specification follows the modification of Edokpa et al., (2024) and Eduard and Zulfa, (2023).

$$DPR = \beta_0 + \beta_1 DTE + \beta_2 FS + \beta_3 FA + \beta_4 ROA + \epsilon \dots \dots \dots 1$$

$$DPR = \beta_0 + \beta_1 DTE + \beta_2 MDTE + \beta_3 FS + \beta_4 FA + \beta_5 ROA + \epsilon \dots \dots 2$$

Where:

DPR = Dividend Payout Ratio

$\beta_0$  = Constant

$\beta_1 - \beta_5$  = Regression Coefficient

DTE = Debt to Equity Ratio

FS = Firm Size

FA = Firm Age

ROA = Return on asset  
 $\beta$  = the coefficient  
 e = Random error term  
 i = cross sectional  
 t = time identifier

**DATA PRESENTATION AND ANALYSIS**

**Table 2: Descriptive Statistics: Capital Structure Influences the Dividend Policy**

Variable	Mean	Std. Deviation	Minimum	Maximum
DPR	0.098	0.049	0.001	0.223
DTE	0.437	0.667	0.030	0.314
ROA	0.088	0.027	0.005	0.150
FS	19.895	0.574	18.784	21.147
FA	45.462	13.643	27.000	68.000

Source: Author's computation (2025) using Stata 17.0

Table 2 indicates that the Nigerian Commercial Banks have comparatively low dividends paid but the mean Dividend Payout Ratio is an average of 9.8 percent of the earnings and there is minimal variance in the Dividend Payout Ratio level across the banks. The outcomes of the Debt to Equity Ratio reflect a higher dependency on equity compared to the debt, though the level of leverage is quite different among banks. The Return on Assets is moderate and quite steady, as the banks get an average 8.8 return on the assets. These banks are mostly in a similar size and are mostly mature institutions whose average age is around 45 years. In general, the variables do not have excessive dispersion or extreme variation and that way, the data can be analyzed as appropriate to determine the effect of capital structure on the dividend policy.

**Table 3: Correlation Matrix (Pearson's Correlation Coefficients)**

Variable	DPR	DTE	FS	FA	ROA
DPR	1.000				
DTE	-0.563***	1.000			
FS	-0.098	0.164	1.000		
FA	0.2674	0.0628	-0.026	1.000	
ROA	0.005	-0.083	0.7656	0.177**	1.000
	0.9517	0.3502	-0.364***	0.0446	
	0.742***	-0.172	0.0000		
	0.0000	0.0508			

Source: Author's computation (2025) using Stata 17.0

Indeed, leverage and profitability play a major role in determining dividend payout among the Nigerian commercial banks as indicated in table 3. Dividend Payout Ratio (DPR) shares a negative and significant relationship with Debt-to-Equity Ratio (DTE), meaning that highly leveraged banks pay lower dividends whereas it shares a positive and significant relationship with Return on Assets (ROA) whereby more profitable banks pay higher dividends. Firm Size (FS) and Firm Age (FA) have weak and insignificant associations with DPR, which suggests that it does not have much impact on the decision on dividends. Some of the explanatory variables include leverage that

is negatively related with a profitability, firm size that is positively related with ROA and firm age that is negatively related with Return on Assets ROA. Each of the correlation coefficients is lower than 0.80, which eliminates the issue of multicollinearity. All in all, the findings demonstrate Debt-to-Equity Ratio and Return on Assets as the determinants of dividend policy in Nigerian commercial banks.

**Table 4: Normality Test (Shapiro–Wilk)**

Test	W Statistic	Z-value	Prob > Z
Shapiro–Wilk Test	0.98499	0.979	0.16373

Source: Author's computation (2025) using Stata 17.0

According to Table: 4, the data forms are within the normality assumption. The Shapiro-Wilk test value (0.98499) is near to 1 and the p-value of (0.16373) is higher than the 5 percent level of significance meaning that there is no significant deviation of normality. The null hypothesis of normality is therefore not rejected and it follows that the data will be appropriate in parametric tests like correlation and regression without the transformations.

**Table 5: Multicollinearity Test: Variance Inflation Factor (VIF)**

Variable	VIF	1/VIF
DTE	1.54	0.6488
ROA	1.22	0.8201
FS	1.18	0.8495
FA	1.04	0.9597
Mean VIF	1.29	

Source: Author's computation (2025) using Stata 17.0

Table 5 indicates that the model does not have a problem of multicollinearity. All the explanatory variables have a VIF of between 1.04 and 1.54 with a mean VIF of 1.29 that is very small compared to the acceptable levels. The fact that the values of the high tolerance are further corroborating low intercorrelation between the variables. In general, the findings suggest that all the explanatory variables can be confidently incorporated in the regression analysis without the distortion of the coefficient estimates.

**Table 6: Testing for Heteroskedasticity**

**Heteroskedasticity Test (Breusch–Pagan/Cook–Weisberg)**

Test Statistic	Chi <sup>2</sup> (1)	Prob > Chi <sup>2</sup>
Heteroskedasticity Test	0.10	0.7466

Source: Author's computation (2025) using Stata 17.0

The heteroskedasticity test has a Chi2 value of 0.10 with a p-value of 0.7466, that is not less than 0.05. This means that the null hypothesis of homoskedasticity is not rejected implying that the error variance is constant. Heteroskedasticity, consequently, does not exist and the regression output is good.

### Regression Result of the Direct

To determine the effect of profitability on capital structure and dividend policy, the fixed, random and hausman specification tests were conducted as depicted in the table below:

**Table 7: Fixed Effects Regression Result**

DPR	Coefficient	Std. Error	z-Statistic	Prob.
DTE	-0.0331	0.0047	-7.01	0.000
ROA	1.330	0.086	15.44	0.000
FS	0.0148	0.0158	0.94	0.351
FA	0.0457	0.0949	0.89	0.002
Constant	-0.221	0.314	-0.70	0.483
R2 = 84%				
Prob F = 0.0000				

Source: Author's computation (2025) using Stata 17.0

Table 7 presents the Fixed Effects regression results, as the model controls for unobserved firm-specific characteristics that are constant over time but may influence dividend payout ratio (DPR). To provide a basis for comparison, the Random Effects regression results are also estimated and presented in table 8 below:.

**Table 8: Random Effects Regression Result**

DPR	Coefficient	Std. err.	z	P> z
DTE	-.0297548	.0032443	-9.17	0.000
ROA	1.447429	.0718381	20.15	0.000
FS	.0213901	.0032971	6.49	0.014
FA	-.000619	.0001304	-4.75	0.000
cons	-.344037	.0686462	-5.01	0.000
R2=74%				
Prob F = 0.0000				

Table 8 presents the Random Effects regression results, estimated under the assumption that the unobserved firm-specific effects are randomly distributed and uncorrelated with the explanatory variables. To determine the most appropriate panel estimation technique between the Fixed Effects and Random Effects models, the Hausman specification test is conducted and presented in Table 9. The test evaluates whether the difference in coefficients obtained from the two models is systematic, thereby assessing the consistency of the random effects estimator relative to the fixed effects estimator. The outcome of the Hausman test provides the statistical basis for selecting the model used for final interpretation and inference in this study.

**Table 9: hausman specification test**

The table below shows the result of hausman specification test

	(b) fixed	(B) random	(b-B) Difference	sqrt(diag(V_b-V_B)) Std. err.
DTE	-.0331168	-.0297548	-.0033621	.0034306
DTA	-.0889602	-.0761718	-.0127884	.0072103
FS	.0148217	.0213901	-.0065684	.0154864
ROA	1.330161	1.447429	-.1172681	.0475918

b = Consistent under H0 and Ha; obtained from xtreg.

B = Inconsistent under Ha, efficient under H0; obtained from xtreg.

Test of H0: Difference in coefficients not systematic

$$\chi^2(4) = (b-B)'[(V_b-V_B)^{-1}](b-B) = 9.72$$

$$\text{Prob} > \chi^2 = 0.0455$$

The Hausman specification test was conducted to determine the most appropriate panel data estimator between the fixed effects and random effects models. The null hypothesis state that the random effects model is appropriate and consistent, while Alternative hypothesis state that the fixed effects model is appropriate and consistent.

Based on the results presented in Table 9, the Hausman test produced a chi-square statistic of 9.72 with 4 degrees of freedom and a corresponding probability value of 0.0455. Since the p-value is less than the 5% level of significance, the null hypothesis is rejected. The result indicates that the differences in the estimated coefficients between the fixed effects and random effects models are systematic. Consequently, the random effects estimator is inconsistent, while the fixed effects estimator remains consistent and reliable. Therefore, the fixed effects model is preferred and adopted for interpretation and policy inference in this study, as it better controls for unobserved firm-specific heterogeneity that may be correlated with the explanatory variables.

#### 4.0 Discussion of result

The Fixed Effects regression results for the direct relationship between the explanatory variables and dividend payout ratio (DPR). The Prob. F value of 0.0000 indicates that the model is statistically significant at the 1% level, implying that the explanatory variables jointly exert a significant effect on DPR. Furthermore, the R<sup>2</sup> of 84% shows that the model explains a substantial proportion of the variations in dividend payout ratio, confirming the strong explanatory power of the fixed effects specification.

The results reveal that the debt-to-equity ratio (DTE) has a negative and statistically significant effect on DPR ( $\beta = -0.0331$ ,  $p < 0.01$ ). This suggests that highly leveraged

firms tend to pay lower dividends, as available earnings are often retained to meet debt obligations. This finding is consistent with earlier studies such as Fama and French (2021), which document a negative association between leverage and dividend payout.

Return on assets (ROA) shows a positive and highly significant relationship with DPR ( $\beta = 1.330, p < 0.01$ ), indicating that more profitable firms distribute higher dividends to shareholders. This result supports the dividend signaling hypothesis and is consistent with the findings of Musa et al (2020), who identify profitability as a key determinant of dividend policy.

The coefficient of firm size (FS) is positive but statistically insignificant ( $\beta = 0.0148, p > 0.05$ ), implying that firm size does not significantly influence dividend payout once firm-specific fixed effects are controlled for. This outcome aligns with the evidence provided by Musa et al (2020), where firm size loses explanatory power after accounting for heterogeneity.

Fixed assets (FA) have a positive and statistically significant effect on DPR ( $\beta = 0.0457, p < 0.05$ ), suggesting that firms with higher asset tangibility are better positioned to maintain dividend payments, possibly due to improved collateral value and easier access to financing. This finding is consistent with Musa et al (2020), who emphasize the importance of asset structure in corporate financial decisions.

**Table 10: Regression Result of Indirect Effect (Moderating Model)  
Random Effect**

DPR	Coefficient	Std. Error	Z-Statistics	Prob.
MDTE	0.393	0.038	-10.27	0.000
ROA	2.456	0.128	19.22	0.001
FS	0.029	0.003	6.55	0.000
FA	-0.001	0.000	-4.68	0.000
Constant	-0.418	0.066	-6.36	0.000
R2 = 0.85				
F-Prob. = 0.0000				

Source: Author's computation (2025) using Stata 17.0

Table 10 reports the regression results of the moderation model, where MDTE represents the interaction term used to examine the moderating effect of profitability (ROA) on the relationship between debt-to-equity ratio (DTE) and dividend payout ratio (DPR). The model is statistically robust, as indicated by an F-probability of 0.0000, while the R<sup>2</sup> value of 0.85 shows that about 85% of the variations in DPR are jointly explained by the explanatory variables and their interaction effects.

The coefficient of MDTE is positive and statistically significant ( $\beta = 0.393, p < 0.01$ ). This result implies that profitability significantly moderates the effect of leverage (DTE) on dividend payout ratio. Specifically, while debt may ordinarily constrain

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dividend payments, the positive interaction term indicates that higher profitability weakens the adverse effect of debt on dividend payout. In other words, profitable firms

are better able to service their debt obligations and still maintain or increase dividend payments, suggesting that profitability cushions the negative impact of leverage on dividend policy.

The direct effect of return on assets (ROA) on DPR is positive and statistically significant ( $\beta = 2.456, p < 0.01$ ), indicating that more profitable firms tend to pay higher dividends. This finding supports the dividend signaling and free cash flow theories, which posit that firms with strong earnings performance are more willing and able to distribute dividends to shareholders.

Firm size (FS) also exhibits a positive and significant effect on DPR ( $\beta = 0.029, p < 0.01$ ), suggesting that larger firms are more likely to pay higher dividends. This may be attributed to their stable cash flows, better access to capital markets, and lower business risk compared to smaller firms. In contrast, fixed assets (FA) have a negative and statistically significant relationship with DPR ( $\beta = -0.001, p < 0.01$ ). This indicates that firms with higher asset tangibility may prefer to retain earnings to finance capital expenditures rather than distribute them as dividends.

## 5.1 SUMMARY, CONCLUSION, AND RECOMMENDATIONS

This study examined both the direct and indirect (moderating) effects of capital structure and firm-specific characteristics on dividend payout ratio (DPR). The fixed effects regression results revealed that the debt to equity (DTE) influences DPR, with strong explanatory power. DTE was found to have a negative and significant effect on dividend payout, while profitability (ROA) exerted a positive and significant influence. Firm size showed a positive but insignificant effect, whereas fixed assets had a positive and significant relationship with DPR in the direct model.

The moderation (interaction) model further demonstrated that profitability plays a crucial role in shaping the DTE–dividend relationship. The positive and significant coefficient of the interaction term (MDTE) indicates that profitability weakens the adverse effect of leverage on dividend payout. In addition, profitability and firm size maintained positive and significant effects on DPR, while fixed assets exerted a negative and significant effect in the moderating model.

## 5.2 Conclusion

Based on the empirical evidence, the study concludes that capital structure and profitability are key determinants of dividend payout policy. High leverage tends to reduce dividend payments, supporting the view that debt obligations constrain firms'

ability to distribute earnings. However, profitability significantly enhances dividend payout and also moderates the negative effect of leverage,

enabling profitable firms to sustain or increase dividend payments despite higher debt levels.

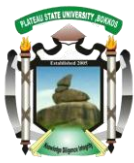
The results further suggest that while firm size may not independently influence dividend payout in the direct model, it becomes significant when profitability is considered as a moderating factor. Fixed assets play a mixed role, indicating that asset structure can either support dividend payments through improved collateral value or constrain them when firms prioritize reinvestment in capital assets.

## Recommendations

Based on the findings of this study, the following recommendations are made:

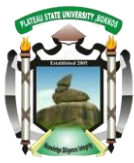
Corporate managers should adopt optimal leverage levels and prioritize profitability, as excessive debt may constrain dividend payments, while strong profitability can offset this adverse effect.

1. Investors should consider firms' profitability and leverage positions when making dividend-related investment decisions, as highly profitable firms are more likely to sustain stable dividend payouts even in the presence of debt.
2. Policy makers and regulators should encourage transparency in financial reporting, particularly regarding capital structure and profitability, to enable informed decision-making by investors.
3. Future research may extend this study by incorporating additional moderating variables such as corporate governance mechanisms or macroeconomic factors, as well as applying alternative profitability measures to enhance the robustness of the findings.

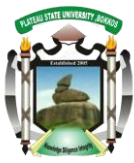


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