

## MODERATING ROLE OF DIVIDEND POLICY ON THE RELATIONSHIP BETWEEN PROFITABILITY AND FIRM VALUE OF LISTED CONSUMER GOODS FIRMS IN NIGERIA

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### ABSTRACT

*This research examines how dividend policy influences the connection between profitability and firm value among Nigerian consumer goods firms listed on the stock exchange from 2012 to 2023. Financial data were extracted from annual reports of companies listed on the Nigerian Exchange Group, with a final sample of 13 firms selected from an initial population of 21 based on data availability. The study employed panel data analysis, with the fixed effects model identified as the most suitable estimation technique. Profitability was proxied by return on assets (ROA), dividend policy by payout ratio (DPR), and firm value by Tobin's Q, while firm size served as a control variable. Key findings indicate that while profitability (ROA) exhibits a positive but statistically insignificant association with firm value, dividend policy significantly enhances this relationship, demonstrating a robust moderating effect. Based on these results, three strategic recommendations emerge; that corporate leaders should integrate non-financial value drivers—such as marketing, innovation, and workforce development—alongside financial performance; dividend policies should be reevaluated, as excessive payouts do not automatically translate to higher valuation; and, that optimal firm value creation requires a calibrated equilibrium between earnings retention and distribution.*

**Keywords:** Dividend Policy, Profitability, Firm Value, Dividend Payout, Firm Size

### INTRODUCTION

Firm value serves as a critical measure of a company's financial health, growth prospects, and competitive positioning in the global marketplace. Porter (1985) emphasizes that sustaining a competitive advantage is fundamental to enhancing firm value, particularly in dynamic industries. The Nigerian consumer goods sector operates in a highly volatile and competitive environment, shaped by shifting consumer demands, economic instability, and regulatory pressures. Despite these challenges, leading firms such as Unilever Nigeria and Nestle Nigeria have consistently strengthened their market value through strategic localization and innovation. For instance, Unilever Nigeria capitalizes on its global brand equity while tailoring products to local tastes, ensuring sustained dominance (Unilever Nigeria, 2022). Similarly, Nestle Nigeria's investments in domestic production and R&D have fortified its competitive edge (Nestle Nigeria, 2022). Other key players, including Guinness Nigeria and PZ Cussons Nigeria, have leveraged product diversification and aggressive marketing to enhance brand equity and market share (Guinness Nigeria, 2022; PZ Cussons Nigeria, 2022).

These strategies underscore the necessity of aligning business operations with market realities to maximize firm value.

Profitability, is a key driver of firm value, enabling firms to generate sustainable returns, optimize cost structures, and reinvest in growth initiatives. Empirical evidence from Nigeria's consumer goods sector highlights this relationship—Unilever Nigeria recorded a net profit margin of 15.6% in 2022, while Nestle Nigeria achieved 12.1%, both attributed to efficient operational strategies and localized innovation. Likewise, Guinness Nigeria and PZ Cussons Nigeria reported improved profitability due to product expansion and targeted marketing campaigns. These cases demonstrate that high profitability not only enhances firm value but also ensures long-term financial resilience.

However, the dividend policy adopted by firms plays a crucial moderating role in this relationship. A well-structured dividend policy signals financial stability and future growth potential, thereby influencing investor confidence and firm valuation. In Nigeria's unpredictable economic climate, where firms must balance shareholder payouts with reinvestment needs, an optimal dividend strategy is vital for sustaining firm value. Despite its significance, existing literature presents conflicting findings on the profitability-firm value linkage—some studies affirm a positive association (Markonah et al., 2022; Putri & Wiksuan, 2021), while others report an inverse relationship (Sa'adah & Indana, 2023; Panjaitan & Supriyati, 2023). These discrepancies suggest the presence of moderating factors, as theorized by Baron and Kenny (1986). Dividend policy, particularly the dividend payout ratio, may explain how firms calibrate profit distribution to maximize both shareholder returns and long-term value creation.

Against this backdrop, the primary objective of this study is to investigate the moderating effect of dividend policy on the relationship between profitability (measured by Return on Assets) and firm value (measured by Market Value) among listed Nigerian consumer goods firms from 2012 to 2023. This period captures critical macroeconomic shocks, including the 2016 recession and the COVID-19 pandemic, providing a robust context for analysis. By addressing this research gap, the study offers valuable information for investors, policymakers, and corporate managers seeking to optimize dividend strategies in alignment with profitability and firm value objectives.

To further elucidate the research focus, the specific objectives of the study are outlined as follows:

- i. To examine the effect of return on assets on firm value of listed consumer goods firms in Nigeria.
- ii. To assess the effect of dividend payout ratio on firm value of listed consumer goods firms in Nigeria.
- iii. To examine the moderating effect of dividend payout ratio on the relationship between return on assets and firm value of listed consumer goods firms in Nigeria.

Building on the research objectives, scope and significance, the study tests the following hypotheses:

H<sub>01</sub>: Return on Assets has no significant effect on firm value of listed consumer goods firms in Nigeria.

H<sub>02</sub>: Dividend Payout ratio has no significant effect on firm value of listed consumer goods firms in Nigeria.

H<sub>03</sub>: Dividend Payout ratio has no significant moderating effect on the relationship between return on assets and firm value of listed consumer goods firms in Nigeria.

## REVIEW OF RELATED LITERATURE

### Concept of Firm Value

Firm value represents the totality of a company's assets and serves as a barometer of its owners' success. As stewards of shareholder interests, managers bear the critical duty of enhancing firm value—a fundamental objective for any enterprise (Bhabra, 2007). Elevated firm value not only denotes corporate prosperity but also amplifies shareholder wealth, serving as a testament to financial performance. It functions as a pivotal metric for assessing corporate health, with its relationship with stock prices shaping investor perceptions and market confidence. Research by Ftouhi et al. (2015) posits that stock price appreciation is synonymous with heightened firm value, underscoring their intrinsic connection. Echoing this, Bhabra (2007) conceptualizes firm value as the premium a discerning investor would pay to acquire the business, encapsulating both its market worth and long-term viability. This perspective reinforces firm value as a proxy for investor trust in a company's growth trajectory and sustainability.

A widely accepted measure of firm value is the market-to-book value (MTBV) ratio, where a higher ratio signals robust business performance and enriched shareholder value. Grounded in the foundational work of Modigliani and Miller (1961), firm value is intrinsically tied to an asset's earnings-generating capacity. Effective asset utilization and sustained profitability, therefore, act as catalysts for bolstering earnings, thereby elevating overall firm value.

### **Concept of Profitability**

Profitability is widely viewed as the primary barometer of a firm's success. It does not only represent the capacity to generate earnings but also reflects the management's ability to achieve financial objectives. High profitability signals effective strategic decision-making, operational efficiency, and competitiveness in the market. Attaining profitability involves balancing revenue growth, cost management, and smart investments, emphasizing the importance of skilled management. Companies that consistently maintain high profits are typically adept at aligning innovation with execution, making profitability a key trait of a well-managed business (Sari & Endri, 2019). Profitability is a vital tool for assessing efficiency, comparing profits to assets, capital, and sales to offer information on returns on investment (Harahap et al., 2020). This holds significant importance for investors, policymakers, and business owners, as it offers a clear understanding of a firm's financial stability and long-term sustainability. Scholars, including Professor Michael Porter of Harvard Business School, have highlighted profitability as a fundamental goal for businesses. His competitive strategy framework underscores profitability's role in fostering innovation, expanding operations, and attracting investors, thus establishing a strong foundation for growth and competitive edge (Lawal & Abdulqadir, 2023).

### **Concept of Dividend Policy**

Dividend policy refers to the strategy employed by directors to determine the amount and timing of cash distributions to shareholders (Kapoor, 2009). It involves a trade-off between allocating profits for dividends and reinvesting them in the business (Lashgari & Ahmadi, 2014). As a strategic decision, dividend policy addresses the key question of how much income should be distributed as dividends versus retained for future investment opportunities (Aduda & Kimathi, 2011). Emeni and Ogbulu (2015) highlighted that this decision is crucial for maximizing shareholder wealth, a fundamental business goal. Waitthaka et al. (2012) also pointed out that companies often adopt policies such as stable or predictable payouts to achieve their objectives.

Dividend payouts are crucial in signaling a company's financial stability and earnings quality. Zhou and Ruland (2006) revealed that companies maintaining generous dividend distribution often see robust projected profitability, even if their past earnings growth has been modest. Similarly, Arnott and Asness (2003) identified a link between high payout ratios and faster earnings growth, challenging the notion that retaining profits for reinvestment leads to better growth. They concluded that higher payouts reduce excess cash flow, discouraging inefficient investments and promoting better resource allocation.

Low dividends can lead to poor investment choices due to managers having excess free cash flow. For companies with limited growth opportunities, higher dividends reduce external scrutiny when raising capital, minimizing conflicts of interest and boosting future earnings through more disciplined investments (Arnott & Asness, 2003). Therefore, dividend policy plays a crucial role in shaping performance by influencing financial discipline and the quality of investments.

## **Theoretical Review**

Three theories have been identified as relevant and underpinning for the study:

### **Signaling Theory**

Signaling Theory, proposed by Ross (1977), asserts that corporate dividend payouts serve as indicators of financial robustness and forward-looking performance to market participants. Financially robust firms strategically employ dividend payouts as quality signals to mitigate information asymmetry and enhance investor confidence, consistent with the signaling theory. In this study, the theory suggests that high profitability (ROA) leads to dividend payments, which enhance firm value (Tobin's Q) by signaling financial strength and future growth potential.

### **Agency Theory**

Agency Theory, propounded by Jensen and Meckling (1976), suggests dividend policy mitigates agency conflicts by limiting free cash flow available to managers, reducing self-serving actions, and subjecting managers to external scrutiny. In this study, the theory implies that high profitability (ROA) drives dividend payouts, reducing agency issues and enhancing firm value (Tobin's Q) by balancing managerial actions with investor interests and promoting effective resource utilization.

### **Free Cash Flow Theory**

Free Cash Flow Theory propounded by Jensen (1986), suggests dividend payouts mitigate agency problems by limiting managerial discretionary cash reserves, limiting value-reducing activities like unprofitable investments. By decreasing free cash flow, dividend payouts increase the need for external financing, subjecting managers to capital market scrutiny. In this study, the theory implies that high profitability (ROA) drives dividends, reducing free cash flow and enhancing firm value (Tobin's Q).

## **Empirical Review**

The following presents review of empirical studies:

### **Profitability and Firm Value**

The relationship between profitability and firm value has been extensively studied with mixed results. Panjaitan and Supriyati (2023) conducted research on food and beverage companies listed on the Indonesian Stock Exchange, analyzing 23 firms from 2019 to 2021. Their study, which considered firm size as a moderating variable, found profitability to negatively affect firm value. Similarly, Sa'adah and Indana (2023) reported a significant negative relationship between profitability and firm value when measured by Tobin's Q, further demonstrating the complex nature of this association.

Contrasting findings emerge from other studies. Bon and Hartoko (2022) examined 30 manufacturing firms listed on the Indonesian Stock Exchange from 2015 to 2019, investigating multiple factors including dividend policy, investment decisions, and leverage. Their results indicated a positive relationship between profitability and firm value. Putri and Wiksuana (2021) focused on 11 companies between 2015 and 2019, analyzing how dividend policy might mediate the effects of liquidity and profitability on firm value. While they found profitability significantly influenced firm value, dividend policy did not serve as an effective mediator. Additional research supports the positive relationship. Jihadi et al. (2021) studied 22 companies over six years (2014-2019), incorporating corporate social responsibility as a moderating variable, and concluded that profitability positively and significantly impacted firm value. Markonah et al. (2020) reinforced these findings through their study of food and manufacturing firms in Jakarta, again showing profitability's positive effect on firm value. These divergent outcomes highlight the ongoing debate in the literature regarding this fundamental relationship.

### **Dividend Policy and Firm Value**

Research on the dividend policy-firm value relationship has produced varied and insightful findings. Ibrahim, Daniel, and Philip (2023) investigated Nigerian banking sector data from 2012 to 2021, analyzing twelve listed banks. Their study revealed an inverse direct relationship between profitability metrics (ROA and ROE) and firm value (measured by market value added), but importantly found that higher dividend payout ratios strengthened this association. This underscores dividend policy's crucial moderating role in banking, prompting their recommendation for enhanced regulatory frameworks to optimize dividend decisions for value maximization. The Nigerian corporate environment presents additional perspectives. Koleosho et al. (2022) analyzed forty-nine firms over a decade (2010-2020) using EGARCH modeling, demonstrating that while dividend policy showed an insignificant negative effect on stock price volatility, it remained a significant determinant of overall market fluctuations. Their findings suggest investors prioritize companies with consistent dividend distributions. Aroh et al. (2021) examined Nigerian firms from 2010 to 2019, uncovering divergent effects: dividend per share (DPS) positively influenced firm value, dividend yield exerted negative pressure, and payout ratios showed no significant impact, leading to their recommendation for balanced earnings retention strategies. Focusing on Nigeria's consumer goods sector, Azende and Apebo (2021) studied listed companies from 2012 to 2019, identifying DPS as having a significant positive correlation with market prices, while payout ratios and retention rates showed negligible effects. This supports their advocacy for increased dividend distributions. Similarly, Egolum and Onyeogubalu (2021) analyzed 2009-2018 data,

confirming DPS's positive association with share prices and recommending optimized dividend frameworks. Ugwu et al. (2020) further reinforced DPS's value-enhancing role through its positive impact on return on equity and overall financial performance.

**METHODOLOGY**

The study uses a quantitative research design to examine the moderating effect of dividend policy on the relationship between profitability and firm value of listed consumer goods firms in Nigeria. The population consists of 21 listed firms as of December 31, 2023. Filter was employed to select the sample of the study based on the criteria that: firm must not be delisted during the period of study, and they must have all data information required to measure the variables of the study within the period. After the filter, eight (8) firms have been filtered out based on data accessibility and availability throughout the study period (2012 to 23). Hence, the final sample is thirteen (13) consumer goods firms. Data were gathered from the annual financial reports of the sampled firms, multiple regression was employed and the data were analyzed using STATA 13. Diagnostic and post-estimation tests ensured the validity and fitness of the model. The hypothesized relationships are empirically tested using the following regression specification:

$$TBSQ_{it} = \beta_0 + \beta_1ROA_{it} + \beta_2DPR_{it} + \beta_4ROA_{it} * DPR_{it} + \beta_3FS_{it} + \epsilon_{it}$$

Where:

TBSQ = Tobin' Q

ROA = Return on Assets

DPR = Dividend Payout

FS = Firm Size

$\beta_0$  = Constant/Intercept

$\beta_1, \beta_2, \beta_3,$  = Coefficient of Independent Variable

i = Firm

t = Period

$\epsilon$  = Error Term

**Table 1:**  
**Summary of Variable Measurement**

S/N	Variable Type	Variable Name	Measurement	Source
1	Dependent Variable	TBSQ		Hayes (2024)
2	Independent Variable	ROA		Orbaningsih (2022)
3	Moderating Variable	DPR		Profilet & Bacon (2013)

4	Control Variable	FS	Natural log of total assets	Abdullahi, Kwaru & Karim (2023)
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Source: Developed by the Researcher (2024)

### DATA ANALYSIS AND DISCUSSION OF FINDINGS

This section presents the empirical findings derived from the research dataset, accompanied by detailed analytical discussion. Comprehensive descriptive analyses were conducted on all study variables, including computation of central tendency measures (mean values), dispersion metrics (standard deviations), and range parameters (minimum and maximum observations). All statistical computations were performed utilizing STATA version 13 statistical software package:

**Table 2:**  
**Descriptive Statistics**

Variable	Obs	Mean	Std. Dev.	Min	Max
TBSQ	156	2.15	1.84	0.15	12.89
ROA	156	0.06	0.07	-0.11	0.26
DPR	156	0.92	1.77	-6.98	12.49
FS	156	10.48	0.69	8.38	11.59

Source: Stata 13, 2024

TBSQ (Firm Value): The average firm value (2.15) indicates the typical size of consumer goods companies in the sample, with a high standard deviation (1.84) suggesting significant variation, representing a mix of small, medium, and large companies. The minimum value (0.15) reflects smaller companies, while the maximum value (12.89) corresponds to larger firms with higher market capitalization. ROA (Profitability): The average ROA (0.06 or 6%) reflects the typical profitability of the companies, with a low standard deviation (0.07) suggesting that most companies are near the average profitability. The negative minimum value (-0.11 or -11%) indicates that some companies are operating at a loss, while the maximum value (0.26 or 26%) represents highly profitable firms. DPR (Dividend Payout Ratio): The average DPR (0.92 or 92%) shows that most companies distribute a significant portion of earnings as dividends. The high standard deviation (1.77) indicates variability in payout practices. The negative minimum value (-6.98) might reflect companies with negative earnings, while the maximum value (12.49) represents those with unusually high payouts. FS (Firm Size): The average firm size (10.48) suggests consistency, with a low standard deviation (0.69). Minimum (8.38) and maximum (11.59) values represent smaller and larger companies. This mix of company sizes and profitability, along with a strong emphasis on dividend payouts, highlights a stable industry structure focused on shareholder value.

**Table 3:**  
**Correlation Matrix**

Variables	TBSQ	ROA	DPR	FS
TBSQ	1.0000			
ROA	0.3577	1.0000		
DPR	-0.1383	0.1245	1.0000	
FS	0.0493	0.1605	-0.0156	1.0000

Source: Stata 13, 2024

TBSQ (Firm Value): Positively correlated with ROA (0.3577), indicating that firm value increases with profitability. Negatively correlated with DPR (-0.1383), suggesting higher dividend payouts are linked to lower firm value. Weakly correlated with FS (0.0493), showing minimal impact of firm size on value. ROA (Profitability): Positively correlated with TBSQ (0.3577) and FS (0.1605), indicating larger, profitable companies tend to have higher firm value. Weakly correlated with DPR (0.1245), showing limited relationship with dividend payouts. DPR (Dividend Payout Ratio): Negatively correlated with TBSQ (-0.1383) and weakly related to ROA (0.1245) and FS (-0.0156).

**Diagnostic and Robustness Tests**

The study conducted diagnostic and robustness tests as recommended by Akowe (2023) and Lawal & Iliyasu (2023). These tests included a normality test, which indicated the presence of normality, as a P-value greater than 0.05 suggests no normality issues (Ruben, 2020). The absence of multicollinearity was confirmed, as VIF values lower than 10 and tolerance values above 0.1 were found (Field, 2009). There was no heteroscedasticity, with P-values greater than 0.05 confirming its absence (Zach, 2020). The Hausman specification test, conducted by Abdullahi et al. (2023) and Nuramaliyah et al. (2024), showed that the Fixed Effect Model was the appropriate model, as it was preferred over the Random Effect Model based on the test's results (Hamdan & Narwade, 2017).

**Table 4:**  
**Presentation and Interpretation of Regression Result**

Variables	Coefficient	Z-Value	P- Value
ROA	0.0056	0.06	0.954
DPR	-0.0455	-0.23	0.818
FS	-0.1779	-2.98	0.004
ROADPR	0.1861	4.58	0.000
Prob > F		0.000	
R-squared		0.283	
F Stat		24.26	

Source: Stata 13 (2024).

The regression analysis presented in Table 4 reveals several key information about the determinants of firm value. Return on Assets (ROA) shows a marginally positive but statistically insignificant relationship ( $\beta = 0.0056, p = 0.954$ ), suggesting that profitability alone does not significantly influence firm valuation in this context. Similarly, the Dividend Payout Ratio (DPR) demonstrates a negative yet insignificant association ( $\beta$

= -0.0455,  $p = 0.818$ ), indicating that dividend distributions by themselves may not substantially affect firm value. However, Firm Size emerges as a strongly significant negative predictor ( $\beta = -0.1779$ ,  $p = 0.004$ ), implying that larger firms tend to have lower valuation metrics in this sample. Most importantly, the interaction between profitability and dividend policy displays a significant positive effect, revealing that dividend payouts play a crucial moderating role in enhancing the value-creating potential of corporate earnings. The model explains approximately 28.3% of the variation in firm value ( $R^2 = 0.283$ ), leaving the remaining 71.7% attributable to other factors beyond the current specification, suggesting opportunities for future research to identify additional value drivers.

### **Hypothesis Testing:**

**H<sub>01</sub>:** Return on Assets has no significant effect on firm value of listed consumer goods firms in Nigeria.

The regression results indicate a positive yet statistically insignificant relationship between return on assets and firm value ( $\beta = 0.0056$ ,  $p = 0.954$ ), suggesting that while the direction of association is favorable, the level of profitability does not exert a meaningful influence on the market valuation of Nigerian consumer goods companies. This outcome leads to non-rejection of the null hypothesis, implying that investors may not significantly factor in current profitability levels when assessing firm value in this sector. The findings present an interesting paradox, as they contradict several established financial theories that posit a strong profitability-valuation link: signaling theory (which suggests profitability communicates future prospects), agency theory (which proposes profitability reduces monitoring costs), and free cash flow theory (which argues profitability enables value-enhancing investments). Instead, the results align with recent empirical evidence from Bon and Hartoko (2022), Putri and Wiksuana (2021), Jihadi et al. (2021), and Markonah et al. (2020), collectively indicating that the presumed relationship between accounting profitability and market-based valuation may be more detailed in emerging market contexts, particularly for consumer goods firms facing unique competitive and regulatory environments.

**H<sub>02</sub>:** Dividend Payout Ratio has no significant effect on firm value of listed consumer goods firms in Nigeria

The analysis reveals an inverse, though statistically non-significant, association between dividend payout ratios and firm valuation ( $\beta = -0.0455$ ,  $p = 0.818$ ). While the negative coefficient suggests that increased dividend distributions might potentially erode firm value, the lack of statistical significance ( $p > 0.05$ ) requires acceptance of the null hypothesis - indicating dividend policy's limited explanatory power over Tobin's Q in Nigeria's consumer goods sector. These unexpected findings challenge multiple theoretical frameworks: Signaling theory (which posits dividends as positive value signals), agency cost Theory (where dividends reduce managerial discretion), and free cash flow (which advocates payout as value-enhancing). The results similarly diverge from empirical evidence presented by Bon and Hartoko (2022) and Jihadi et al. (2021), potentially reflecting unique market conditions where investors may prioritize retained earnings for growth over immediate payouts, or where other value drivers dominate dividend effects in firm valuation.

**H<sub>03</sub>:** Dividend Payout ratio has no significant moderating effect on the relationship between return on assets and firm value of listed consumer goods firms in Nigeria

The analysis demonstrates a statistically significant positive moderating effect of dividend policy on the profitability-valuation relationship ( $\beta = 0.1861$ ,  $p < 0.001$ ). This robust finding ( $p = 0.000$ ) leads to clear rejection of the null hypothesis, confirming that dividend payout ratios play a crucial enhancing role in how profitability translates to firm value for Nigerian consumer goods firms. The strongly significant interaction term reveals that the confluence of profitability and dividend distributions creates synergistic value effects - where profitable firms that simultaneously maintain appropriate payout policies achieve superior market valuation. These results highlight the critical importance of considering both earnings generation and distribution policies jointly when assessing firm value drivers in emerging market consumer sectors.

## CONCLUSION AND RECOMMENDATIONS

This study investigated how profitability and dividend policy influence firm value in Nigeria's consumer goods sector. Profitability (ROA) shows a positive but statistically insignificant effect on firm value ( $\beta = 0.0056$ ,  $p = 0.954$ ), failing to reject H01. This suggests investors do not heavily rely on current earnings when valuing firms, possibly due to sector-specific risks or alternative valuation metrics. Dividend payouts (DPR) alone exhibit a negative yet insignificant relationship with firm value ( $\beta = -0.0455$ ,  $p = 0.818$ ), supporting H02, implying standalone dividend policies do not drive valuation. However, the most critical finding is the significant positive moderating role of dividend policy ( $\beta = 0.1861$ ,  $p < 0.001$ ), rejecting H03. This indicates that while neither profitability nor dividends independently boost value, their combined effect creates synergy—profitable firms that distribute dividends strategically achieve higher market valuation. The results contradict classical theories but align with emerging-market evidence, emphasizing that in Nigeria's consumer sector, dividends act as credibility signals, transforming accounting profits into investor confidence. Firms should thus integrate payout policies with profitability to maximize shareholder value. Based on the empirical findings of the study, the following strategic recommendations are proposed:

- i. Managers should focus on strategies beyond profitability, such as marketing, innovation, and human capital, to enhance firm value.
- ii. Firms should reconsider dividend policies, as high payouts may not necessarily increase firm value.
- iii. Companies should balance profitability and dividend payouts to drive firm value.

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