



Financial Performance and Dividend Policy among Firms Listed on the Rwanda Stock Exchange: Evidence from an Emerging African Capital Market

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Abstract

Background: Dividend policy is a crucial corporate finance decision impacting shareholder wealth, investment decisions, and corporate sustainability. While there are many pieces of research linking financial performance to dividend policy, few empirical studies exist in relation to emerging African stock markets, such as the Rwanda Stock Exchange (RSE). **Objectives:** The current research evaluates the impact of financial performance on the dividend policy of firms listed at the RSE over the period of 2015–2024. **Methods:** A quantitative research design was used for analyzing the secondary data collected from eight RSE-listed firms. A balanced panel dataset consisting of 80 firm-year observations was analyzed through the use of descriptive statistics, correlation analysis, diagnostics, and fixed-effects panel regression analysis with robust standard errors. The dividend payout was used as a dependent variable, while ROA, ROE, NPM, and LEV were used as independent variables. **Results:** It has been found that ROA and LEV have positive coefficient values, while ROE and NPM have negative coefficient values. Nevertheless, the results suggest that none of the variables has a statistically significant effect on dividend payout ($p > 0.05$). **Conclusion:** The findings suggest that financial performance measures based on accounting reports fail to properly explain the dividend policy decisions of RSE-listed firms. Other factors can also affect the dividend decision process.

Keywords: Dividend Policy; Financial Performance; Financial Performance Indicators; Fixed-Effects Panel Regression; Rwanda Stock Exchange

Introduction

Dividend policy is one of the significant issues of corporate finance since it impacts shareholders' wealth, investment decisions, capital structure, and sustainability (Booth & Zhou, 2017; Miller & Modigliani, 1961). Corporate managers should distribute profits to their shareholders and retain the necessary amount of earnings for new projects (Miller & Rock, 1985; Lintner, 1956). Contemporary evidence also shows that payout decisions involve managerial considerations regarding earnings stability, investment opportunities, and shareholder expectations (Brav *et al.*, 2005). Even though dividends bring current returns to investors, too high levels of payouts may lead to a decrease in the firm's internal financing.

Financial performance can be identified as one of the key drivers of dividend policy, as financially healthy firms are capable of distributing dividends without any disruption in investment activities (Fama & French, 2001). The measures used to measure the profitability and effectiveness of managers include

Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM). As per signalling theory, firms may signal positive expectations about their future financial performance through dividends (Miller & Rock, 1985; Bhattacharya, 1979). In its turn, the Residual Dividends Theory postulates that firms make dividend payments after financing profitable investment opportunities (Lintner, 1956).

Nevertheless, the correlation between the level of financial performance and the dividend policy differs from country to country and institutional environment. For instance, Fama and French (2001) have proven the fact that profitable firms are more willing to pay dividends. More recently, it has been shown that the determinant factors of the dividend decision are profitability, leverage, and firm-specific factors (de Souza Junior *et al.*, 2025).

In particular, in developing African capital markets, where firms operate in the conditions of limited liquidity, ownership concentration, and institutional changes in the corporate governance system, dividends play not only a role as a tool for profit distribution but also signals of financial health and management trustworthiness (Booth & Zhou, 2017; Jabbouri, 2016). Recent evidence from emerging markets further indicates that information asymmetry and corporate governance quality significantly influence dividend payout decisions, suggesting that institutional mechanisms may shape how firms communicate financial strength through dividends (Al-Hiyari *et al.*, 2024).

The Rwanda Stock Exchange (RSE), founded in 2011, makes a contribution to Rwanda's economy through fostering investments, corporate governance, and capital access. Even though it is relatively smaller than developed stock markets, the companies listed at the RSE operate in different industries, including banking, insurance, telecommunications, manufacturing, and industry. However, there is not enough empirical information about the impact of financial performance on dividend decisions of the RSE companies (Rwanda Stock Exchange, 2024).

Research in Rwanda on the impact of dividend policy has largely concentrated on its effect on firm value, investor perception, and corporate governance but not the joint effect of financial performance on dividend policy decision-making (Ngoboka & Singirankabo, 2021). Furthermore, previous research in this area has largely used cross-sectional analysis to establish the effects of factors such as firm size and leverage.

This study addresses the gap through an analysis of the effect of financial performance on dividend policy among listed firms on the RSE. It focuses on determining the effect of ROA, ROE, and NPM on dividend payment while considering financial leverage as a control variable in the context of the frontier African capital market through a fixed-effects panel regression model.

The study makes three main contributions to the literature on dividends. Firstly, it contributes to the existing literature by using panel data on dividends among RSE-listed firms. Secondly, unlike previous studies that often rely on a single profitability indicator, this study jointly examines three financial performance measures: Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM).

Literature Review

This study is based on the following three dividend policy theories: Dividend Irrelevance Theory, Signalling Theory, and Residual Dividend Theory. These theories help understand how firms conduct their dividend policy and what financial performance metrics can affect dividend payout decisions.

Dividend Irrelevance Theory

The Dividend Irrelevance Theory was formulated by Miller and Modigliani (1961), who argued that under perfect capital market assumptions, dividend policy did not affect the value of the firm. The complexity of dividend decisions was later highlighted by Black (1976), who described dividend policy as a

persistent puzzle because firms continue to maintain dividend payments despite theoretical arguments suggesting limited valuation effects. In the case of efficient markets with symmetric information and no taxes or transaction costs, the investor's utility was independent of the type of payment: dividends or capital gain. Nevertheless, due to the lack of efficiency and existence of information asymmetries, constraints in financing, and agency problems, firms were likely to choose various dividend strategies. Dividend decisions may also be influenced by investor preferences and tax considerations, as explained by the clientele effect, where different groups of shareholders prefer different dividend policies depending on their tax positions (Elton & Gruber, 1970). Thus, this theory serves as the basis for analysis of whether financial performance indicators can significantly explain the behavior of dividend policy in emerging capital markets.

Signalling Theory

The Signalling Theory was formulated by Bhattacharya (1979) and further elaborated by Miller and Rock (1985). It views the dividend payout as the mechanism by means of which managers signal their knowledge of future firm performance to outside investors. Due to the informational superiority of managers over outsiders, dividends could be considered a tool for reducing information asymmetry between the two sides. As a result, companies with strong financial performance, represented by ROA, ROE, and NPM, were able to pay more dividends as a signal of financial stability. However, the significance of the relation could depend on company features and institutional environment (de Souza Junior *et al.*, 2025).

Residual Dividend Theory

According to the Residual Dividend Theory, the authors of which were Lintner (1956), the firm should use the generated resources to finance profitable investments and distribute only the remaining money among shareholders as dividends. Recent empirical evidence from Indonesia also provides support for residual dividend theory by showing that investment requirements and profitability conditions influence firms' dividend distribution decisions (Wirama *et al.*, 2024). In this case, profitable companies had dividend-paying capacity, but they were also able to retain their earnings in case they needed additional funds for investments. This theory is applicable in emerging economies, where firms often relied on their resources for development. The preference for retained earnings as an internal financing source is also consistent with the pecking order perspective, which suggests that firms generally prefer internal funds before seeking external financing (Myers, 1984). Recent evidence showed that profitability, leverage, and financial flexibility simultaneously affected the decision-making (de Souza Junior *et al.*, 2025).

Empirical Literature Review

Return on Assets and Dividend Policy

Return on Assets (ROA) refers to a company's capability to earn money from its total assets, indicating the level of managerial efficiency in utilizing existing resources. Companies with high ROA can be expected to have a high potential of paying dividends since profitability brings more internal funds (Fama & French, 2002). Empirical evidence shows that profitability significantly influences dividend decisions. Fama and French (2002) noted that profitable companies tend to pay dividends, while Jabbouri (2016) identified the positive correlation between profitability and dividend policy among companies quoted in MENA markets.

Earlier empirical evidence by Fama and Babiak (1968) also demonstrated that corporate dividend decisions are strongly related to earnings patterns and firms' adjustment behavior toward target dividend levels. In turn, de Souza Junior *et al.* (2025), based on the experience of emerging G20 economies, established that profitability was a significant driver of dividend payout after adjusting for leverage, firm size, and growth opportunities. However, limited empirical evidence is found in the context of frontier economies such as Rwanda, leaving an opportunity for further study.

Return on Equity and Dividend Policy

Return on Equity (ROE) reflects the level of returns on shareholders' investment and reveals managerial efficiency in generating shareholder value. Companies with high ROE might have good potential for rewarding shareholders with dividend payments while retaining their investment potential. According to prior research, profitability calculated with respect to shareholder returns is a factor affecting dividend decisions. Jabbouri (2016) revealed that profitability factors significantly affect dividend decisions, while Booth and Zhou (2017) argued that profitability interacted with financial constraints and investment opportunities in making payout decisions. Recent empirical findings in emerging economies also supported the importance of profitability, although dividend decisions were affected by institutions and firm factors (de Souza Junior *et al.*, 2025). However, limited empirical evidence was found with regard to the impact of ROE on dividend decisions among companies quoted on the RSE.

Net Profit Margin and Dividend Policy

The Net Profit Margin (NPM) is the measure of the proportion of the firm's revenue translated to net income after expenses. It reflects a company's ability to produce sustainable profit. Higher NPM indicates a greater capability to distribute dividends, since companies with higher NPM can afford to pay out more dividends, but profitable companies may keep their earnings to fund future projects. Empirical evidence indicates that profitability is one of the determinants of dividend policy, yet not the only factor. Recent evidence from listed Indonesian companies also demonstrates the importance of profitability in explaining dividend policy, although the relationship may vary depending on firm characteristics and market conditions (Yulianti *et al.*, 2026). For instance, Booth and Zhou (2017) state that profitability influences decisions about dividends, yet firms can change their dividend decisions depending on financing and growth opportunities. Similarly, de Souza Junior *et al.* (2025) found that profitability had a significant impact on dividend payout decisions for the emerging market firms. However, the impact can be different under various conditions. The evidence regarding Rwanda is rather limited; hence, the research is needed to investigate the link between NPM and dividend policy.

Financial Leverage and Dividend Policy

Financial leverage refers to the extent to which firms use debts for financing operations. Overly leveraged firms are likely to pay lower dividends because their debt obligations limit the funds available for dividend payouts. Most empirical studies indicate the inverse relationship between financial leverage and dividends. Jabbouri (2016) found that financial leverage was a significant determinant of dividend decisions, and highly leveraged firms tended to pay conservative dividends. Recently de Souza Junior *et al.* (2025) found out that leverage and profitability together determine the decisions about dividend payouts for emerging market firms. Therefore, the effect of financial leverage may be influenced by many factors. Thus, this study uses financial leverage as a control variable while investigating the impact of financial performance on dividend policy.

Research Gap

Although there have been many studies on dividend policy, some research gaps exist. A recent bibliometric review indicates that dividend policy research has expanded considerably across different theoretical perspectives, markets, and determinants, highlighting the continued importance of identifying context-specific factors influencing dividend decisions (Ed-Dafali *et al.*, 2023). First, there is an insufficient amount of empirical research establishing the link between the financial performance of companies and their dividend policies. Some studies found that profitable firms are more likely to pay dividends than those operating with losses, but other studies reported weak correlations, implying that factors influencing dividend payments depend on economic and institutional context (Jabbouri, 2016; Fama & French, 2001).

Second, there is insufficient empirical evidence on dividend policy in Sub-Saharan Africa, including frontier capital markets. The findings from the developed countries and emerging markets may not be applicable for Rwanda due to different levels of market development, ownership structure, regulations, and investors' features.

Third, previous empirical research in Rwanda has mostly covered the impact of dividend policy on firm value, perception of investors, and issues of corporate governance. For instance, Ngoboka and Singirankabo (2021) examined the issue of dividend policy and firm value. At the same time, the literature lacks information on the impact of ROA, ROE, and NPM on dividend policy among listed companies.

Fourth, previous empirical research has used the cross-sectional and survey approaches to study dividend policies, leaving the lack of evidence on the changes in dividend payments over time. The current study aims at addressing these gaps by using fixed effects regression analysis to test the impact of ROA, ROE, and NPM on the dividend payments of listed firms on RSE in 2015-2024.

Hypotheses Development

The hypotheses of this study are formulated based on the Signalling Theory and Residual Dividend Theory, which state that financially sound firms are capable of distributing more dividends to their shareholders (Miller & Rock, 1985; Lintner, 1956).

Return on Assets and Dividend Policy

Return on Assets (ROA) is an indicator of firms' ability to earn profits by using their assets. Profitable firms may be able to distribute their residual earnings to their shareholders in form of dividends. Studies have shown that profitable firms are prone to paying dividends (Jabbouri, 2016; Fama & French, 2001). Thus:

H₁: There is a positive and significant effect of Return on Assets on dividend policy of firms listed on the RSE.

Return on Equity and Dividend Policy

Return on Equity (ROE) is an indicator of profits earned from shareholders' investments. High ROE may be conducive to rewarding shareholders in the form of dividends, though the impact may vary depending on the institutional environment (de Souza Junior *et al.*, 2025; Jabbouri, 2016). Thus:

H₂: There is a positive and significant effect of Return on Equity on dividend policy of firms listed on the RSE.

Net Profit Margin and Dividend Policy

Net Profit Margin (NPM) is an indicator of net income earned from sales. NPM may be conducive to distributing dividends, even though firms may need to retain profits for investments (de Souza Junior *et al.*, 2025; Fama & French, 2002). Thus:

H₃: There is a positive and significant effect of Net Profit Margin on dividend policy of firms listed on the RSE.

Financial Leverage and Dividend Policy

Financial leverage is an indicator of a debt-based financing strategy adopted by firms. The higher the financial leverage, the lower the dividends since debt obligations may consume the funds that could otherwise be distributed to shareholders (de Souza Junior *et al.*, 2025; Jabbouri, 2016). Thus:

H₄: There is a negative and significant effect of Financial Leverage on dividend policy of firms listed on the RSE.

Methodology

Research Design

In this case, the study utilized a quantitative research design where secondary financial data from firms listed on the Rwanda Stock Exchange was used. The use of panel data design was important, as it

combined cross-sectional and time-series information, efficient estimation, and controlling for unobserved firm-specific variables (Baltagi, 2021; Wooldridge, 2021).

Data Source and Sample

Secondary data were used in the study, which were gotten from audited annual reports and financial statements of firms listed on the RSE. Census data design was used due to the small number of firms listed. Following data availability and consistency tests, a total of eight firms were selected during the period 2015-2024, giving a total of 80 firm-year observations.

Variables and Measurement

Dividend policy was used as the dependent variable, while Return on Assets (ROA), return on equity (ROE), Net Profit Margin (NPM) and Financial Leverage (LEV) served as independent variables.

Table 1: Measurement of Study Variables

Variable	Symbol	Measurement	Expected Sign	Supporting Literature
Dividend Policy	DIV	Dividend payout ratio	Dependent	Fama & French (2002); Lintner (1956)
Return on Assets	ROA	Net Income ÷ Total Assets	+	Fama & French (2001)
Return on Equity	ROE	Net Income ÷ Shareholders' Equity	+	Jabbouri (2016)
Net Profit Margin	NPM	Net Income ÷ Revenue	+	de Souza Junior <i>et al.</i> (2025)
Financial Leverage	LEV	Total Debt ÷ Total Assets	-	Jabbouri (2016)

To explore the impact of financial performance on dividend policy, the following fixed-effects panel regression model was estimated:

$$DV_{it} = \beta_0 + \beta_1 ROA_{it} + \beta_2 ROE_{it} + \beta_3 NPM_{it} + \beta_4 LEV_{it} + \mu_i + \lambda_t + \varepsilon_{it}$$

Where:

- DIV_{it} is the dividend payout ratio of firm (i) in year (t);
- ROA_{it} is the Return on Assets of firm (i) in year (t);
- ROE_{it} is the Return on Equity of firm (i) in year (t);
- NPM_{it} is the Net Profit Margin of firm (i) in year (t);
- LEV_{it} is the financial leverage ratio of firm (i) in year (t);
- β_0 is the constant term
- $\beta_1, \beta_2, \beta_3, \beta_4$ are the coefficients for the independent variables
- μ_i are unobserved firm –specific effects which do not change over time
- λ_t are the year - specific effects influencing all firms during a certain period
- ε_{it} is the idiosyncratic error term

A fixed-effects model was estimated based on the cluster-robust standard errors at the firm level to solve the issues of heteroscedasticity and correlation within firms.

Estimation Procedure

The analysis was done using Stata. This analysis entailed descriptive analysis, Pearson correlation analysis, diagnostic tests, and estimation of the panel regression. There was a comparison of pooled ordinary least squares, random effects, and fixed effect models, and there was the use of the Hausman test to decide between fixed effect models and random effect estimators (Baltagi, 2021; Hausman, 1978). There was the use of cluster-robust standard error in order to improve statistical inference.

Diagnostic Tests

There were some diagnostic tests done before estimating the regression. The multicollinearity test was done using Variance Inflation Factor (VIF), which had acceptable values below 10 (Gujarati *et al.*, 2022). The Breusch-Pagan/Cook-Weisberg test was done in order to identify heteroskedasticity, while the Wooldridge test was done to identify serial correlation in the panel data (Wooldridge, 2021).

Results

Descriptive Statistics

Descriptive statistics describe the data distribution and its dispersion of the study variables prior to running panel regression analysis. Table 2 below shows descriptive statistics of the balanced panel dataset, which has 80 firm-year observations of 8 firms that trade at the RSE between 2015 and 2024.

Table 2: Descriptive Statistics of the Study Variables

Variable	Observation	Mean	Std. Dev.	Min	Max
Dividend Payout (DIV)	80	0.4245	0.1017	0.2501	0.5837
Return on Assets (ROA)	80	0.0612	0.0245	0.0246	0.1336
Return on Equity (ROE)	80	0.1214	0.0551	0.0388	0.3254
Net Profit Margin (NPM)	80	0.1094	0.0360	0.0512	0.1779
Financial Leverage (LEV)	80	0.4817	0.0799	0.3507	0.6495

Source: Author's computation from panel dataset

The findings suggest that the firms have an average dividend payout of 42.45% with moderate variations between the observations. The profitability measures reveal that the average ROA is 6.12%, ROE is 12.14%, and NPM is 10.94%. These figures imply the positive financial performance of the firms in the sample. Financial leverage is 48.17% on average, reflecting moderate use of debt financing. The variables exhibit adequate variations for panel regression estimates.

Correlation Analysis

The Pearson correlation was performed to evaluate the correlation among the study variables and to determine the possibility of multicollinearity before performing panel regression. According to Gujarati *et al.* (2022), correlation coefficients less than 0.80 imply no multicollinearity issues.

Table 3: Pearson Correlation Matrix

Variable	DIV	ROA	ROE	NPM	LEV
DIV	1.000				
ROA	0.612*	1.000			
ROE	0.547*	0.742*	1.000		
NPM	0.483*	0.691*	0.628*	1.000	
LEV	-0.326	-0.418*	-0.505*	-0.371*	1.000

Notes: *** $p < 0.01$; ** $p < 0.05$

Source: Author's computation from panel dataset

The findings in the Table 3 reveal that dividend payout is significantly related to ROA ($r = 0.612$), ROE ($r = 0.547$), and NPM ($r = 0.483$); on the other hand, there is an inverse relationship between leverage and dividend payout ($r = -0.326$). ROA and ROE have the strongest correlation between independent variables ($r = 0.742$), but it still falls below 0.80. Thus, there is no multicollinearity as per correlation analysis, although it was further tested for through the VIF test.

Diagnostic Tests

Diagnostic tests were carried out prior to panel regression analysis to detect multicollinearity, heteroskedasticity, serial correlation, and the correct specification of the model (Gujarati *et al.*, 2022; Wooldridge, 2021).

Multicollinearity Test

Multicollinearity was checked via VIF, with VIF values below 10 usually accepted (Gujarati *et al.*, 2022).

Table 4: Variance Inflation Factor (VIF) Results

Variable	VIF	1/VIF
Financial Leverage (LEV)	5.90	0.1694
Mean VIF	19.12	
Net Profit Margin (NPM)	2.60	0.3845
Return on Assets (ROA)	31.82	0.0314
Return on Equity (ROE)	36.15	0.0277

Source: Author's computation from panel dataset

There is evidence of strong multicollinearity between ROA and ROE since both measure aspects of profitability. Nevertheless, both were included since they measure theoretically distinct measures of performance. Regression analysis using these variables requires care in its interpretation (Table 4).

Test for Heteroskedasticity

Heteroskedasticity is checked using the Breusch-Pagan/Cook-Weisberg test (Table 5).

Table 5: Breusch–Pagan Test for Heteroskedasticity

Test Statistic	Value
Chi-square	9.84
Probability (p-value)	0.043

Serial Correlation Test

The Wooldridge test was conducted to detect autocorrelation in the panel data.

Table 6: Wooldridge Test for Autocorrelation

Test Statistic	p-value
F-statistic	1.87
Probability (p-value)	0.214

The result is statistically insignificant ($p = 0.214$), indicating that first-order serial correlation is not present (Table 6).

Hausman Specification Test

The Hausman test was conducted to select between fixed-effects and random-effects estimators.

Table 7: Hausman Specification Test

Test Statistic	p-value
Chi-square	12.63
Degrees of Freedom	4
Probability (p-value)	0.013

Table 7 shows the Hausman test to be significant ($\chi^2 = 12.63$, $p = 0.013$), indicating that the fixed-effects model is more appropriate than the random-effects model (Baltagi, 2021; Hausman, 1978).

Overall, the diagnostic tests support the use of the fixed-effects model. Although ROA and ROE show high multicollinearity, heteroskedasticity was addressed through cluster-robust standard errors, and no serial correlation was detected.

Panel Regression Results

Following the diagnostic tests in Table 8, a fixed-effects panel regression model was estimated to examine the effect of financial performance on dividend policy. Cluster-robust standard errors were applied to address heteroskedasticity (Wooldridge, 2021; Baltagi, 2021).

Table 8: Fixed-Effects Panel Regression Results

Variable	Coefficient	Robust Std. Error	z-statistic	p-value	Decision
Return on Assets (ROA)	2.6310	1.6640	1.581	0.114	Not significant
Return on Equity (ROE)	-0.8954	0.8530	-1.049	0.294	Not significant
Net Profit Margin (NPM)	-0.1251	0.3950	-0.317	0.751	Not significant
Financial Leverage (LEV)	0.2566	0.3060	0.839	0.402	Not significant
Constant	0.2487	0.1550	1.607	0.108	Not significant

Table 9: Model Statistics

Statistic	Value
Number of observations	80
Number of firms	8
R ²	0.126
Adjusted R ²	-0.015

F-statistic	2.562
Prob > F	0.131

Source: Author's computation from the panel dataset

The fixed-effects regression results indicate that the overall model is statistically insignificant ($F = 2.562$, $p = 0.131$). Therefore, the selected financial performance indicators do not jointly explain significant variations in dividend payout among firms listed on the RSE (Table 9).

ROA shows a positive but insignificant effect ($\beta = 2.6310$, $p = 0.114$), while ROE ($\beta = -0.8954$, $p = 0.294$) and NPM ($\beta = -0.1251$, $p = 0.751$) show negative and insignificant effects. Financial leverage has a positive but insignificant coefficient ($\beta = 0.2566$, $p = 0.402$).

Overall, none of the explanatory variables significantly affect dividend policy at the 5% significance level. Therefore, H1, H2, H3, and H4 are not supported. The findings suggest that dividend decisions among RSE firms may depend on additional factors beyond the accounting-based financial indicators examined in this study.

Discussion

This sub-section discusses the regression results based on study hypotheses, theoretical perspectives, and past research. None of the selected indicators of financial performance influences the dividend policy in listed firms at the RSE. As such, H1, H2, H3, and H4 are not supported.

Return on Assets and Dividend Policy

There is a positive but insignificant influence of ROA on the dividend policy in companies at the RSE ($\beta = 2.6310$, $p = 0.114$). Since there is a positive relationship between the independent and dependent variables, profitable companies may have the potential to declare dividends. However, since there is no significant relationship between ROA and dividend decisions, ROA may not be used as a single indicator of companies' ability to declare dividends. It is in line with the expectations of Signalling Theory since profitability may encourage profitable companies to declare dividends in order to signal their financial strength (Miller & Rock, 1985; Bhattacharya, 1979). At the same time, the results contradict those of Fama and French (2001) because of their findings on profitability being an important determinant of dividends. The difference may be due to peculiarities of frontier markets.

Return on Equity and Dividend Policy

ROE influences the dividend policy negatively and insignificantly ($\beta = -0.8954$, $p = 0.294$); thus, H2 is rejected. There is a negative relationship between ROE and the dividend policy; thus, companies with high ROE may prefer to retain their profits in order to finance future investments. As a result, the findings are in line with Residual Dividend Theory, according to which companies consider their investments before declaring dividends (Lintner, 1956). At the same time, the results contradict those of other researchers who found positive relationships between profitability and dividend payout such as Jabbouri (2016).

Net Profit Margin and Dividend Policy

NPM has a negative and insignificant impact on the dividend policy ($\beta = -0.1251$, $p = 0.751$). As a result, H3 is not supported. Though there is a potential to declare dividends because of high operating profitability, the results suggest that companies do not take it into account when making dividend decisions. Thus, the results are different from those of de Souza Junior *et al.* (2025).

Financial Leverage and Dividend Policy

The variable financial leverage has a positive yet insignificant relationship with the dividend policy ($\beta = 0.2566$, $p = 0.402$) causing rejection of H4. Though highly leveraged companies tend to pay low the dividends owing to their debt commitments, the results reveal that leverage does not make any significant contribution to dividend policy of the selected firms. However, Jabbouri (2016) found a

negative relationship between leverage and dividend payout ratio. Such discrepancy may be because of financing structure differences and market environment conditions.

General Discussion

On balance, it is revealed that accounting-based financial performance measures do not have a significant influence on the dividend policy in the case of companies listed on the RSE for the period of 2015–2024. Although ROA and LEV have positive coefficients and ROE and NPM are negatively correlated with the dependent variable, no significance is observed in these relationships. Hence, dividend policy can be affected by some other factors, including ownership structure, corporate governance, liquidity, investment opportunities, etc.

Limitations

This study has several limitations that should be considered when interpreting the findings. First, the study is limited to eight firms listed on the RSE over the period 2015–2024, which may limit the generalisability of the findings to larger or more developed capital markets. Second, the analysis focuses on three accounting-based financial performance indicators, Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM), with financial leverage as a control variable. Other factors that may influence dividend policy, including liquidity, cash flow, ownership structure, corporate governance, investment opportunities, and macroeconomic conditions, were not incorporated into the model. Third, the relatively high multicollinearity between ROA and ROE may reduce the precision of their individual coefficient estimates and therefore requires cautious interpretation. Finally, the study relies exclusively on secondary financial data and consequently does not capture managerial motivations or investor perceptions underlying dividend decisions.

Future Scope

Future research may extend this study by incorporating additional determinants of dividend policy, including liquidity, operating cash flow, ownership structure, corporate governance, investment opportunities, firm size, and macroeconomic factors. Comparative studies involving other East African stock markets could provide broader evidence on whether the determinants of dividend policy differ across frontier and emerging capital markets. Future studies may also employ longer observation periods and dynamic panel techniques to capture the persistence of dividend decisions and address potential endogeneity. Given the high multicollinearity observed between ROA and ROE in the present study, alternative model specifications examining this profitability indicators separately may provide more precise estimates of their individual effects. Finally, qualitative or mixed-method studies involving corporate managers and investors could complement financial statement analysis by providing deeper insights into the institutional and managerial factors underlying dividend decisions.

Conclusion

The study analysed 80 observations of 8 firms listed on the Rwanda Stock Exchange between 2015 and 2024. In the fixed-effects model, ROA had a positive coefficient ($\beta = 2.6310$, $p = 0.114$), while ROE ($\beta = -0.8954$, $p = 0.294$) and net profit margin ($\beta = -0.1251$, $p = 0.751$) had negative coefficients. Financial leverage had a positive coefficient ($\beta = 0.2566$, $p = 0.402$). None of the coefficients were statistically significant at 5%; neither was the overall model ($F = 2.562$, $p = 0.131$). Therefore, the data does not support H1–H4, and estimated coefficients cannot be considered established effects.

Within the sample and model specification used in this study, the selected accounting-based financial indicators do not significantly explain variations in dividend payout among RSE-listed firms. This study does not examine other factors such as governance, liquidity, cash flow, investment needs, or ownership structure that could explain payout decisions. A small sample and multicollinearity of ROA and ROE in the sample also restrict the accuracy of estimation. Further research should investigate other drivers of dividend policy and estimate ROA and ROE separately.

CRediT Authorship Contribution Statement

J.P.M.: Conceptualization, methodology, investigation, data curation, formal analysis, visualization, writing-original draft, project administration. S.A.S.: Supervision, validation, writing-review & editing.

AI Assistance Declaration

During the preparation of this manuscript, the authors used ChatGPT (OpenAI) for language editing, clarity, organization, and formatting support. All AI-assisted content was critically reviewed, verified, and revised by the authors, who take full responsibility for the accuracy, originality, interpretation, and final content of the manuscript. ChatGPT was not used for data collection or statistical analysis.

Conflict of Interest

The authors declare that they have no conflicts of interest

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