

Factors Influencing Dividend Payout of Firms Listed at the Nairobi Securities Exchange, Kenya

Sang Bernard Cheruiyot, Dr. Kenya Patrick Nyatete, Ph.D., Dr. Oluoch Oluoch, Ph.D.

Department of Accounting and Finance, Jomo Kenyatta University of Agriculture and Technology, Kenya

Abstract; While various factors influencing a firms' dividend policy have been evaluated by researchers, the outcome of these studies has not entirely resolved the controversies linked to dividend decision. There is little information on factors affecting dividend payout in different sectors among the listed firms in the NSE. The main objective of this research was therefore to establish the effect of defined firm characteristics on dividend policy of firms listed at the Nairobi Securities Exchange. The specific objectives of the study were to establish the effect of size on dividend payout policy of firms listed at the NSE, to evaluate the effect of leverage on dividend payout policy of firms listed at the NSE, to determine the effect of growth on dividend payout policy of firms listed at the NSE, and to establish the effect of liquidity on dividend payout of firms listed at the NSE. This study was based dividend irrelevance theory, dividend relevance theories of the bird at hand. This study employed the explanatory survey research design and the target population of this study was all 64 listed firms in the NSE for the five-year period of 2016 to 2020. The study collected data from 32 firms whose data was complete for the entire period of study. This made 160 observations. The study utilized secondary data which from the NSE handbooks. The data collected was analyzed using descriptive and inferential statistics. Regression results show that; firm size has a positive significant effect on dividend policy of firms listed at the NSE; leverage affects dividend policy negatively and significantly; firm growth has a positive significant effect on dividend policy; and that liquidity has a positive significant effect on dividend policy. The results from the research may benefit potential investors in deciding which sector to invest in. Future researchers in the area of dividend policy may also find results from this study important as it may lay a foundation to their studies.

Keywords: Dividend Payout, Firm age, Leverage, Firm Size, NSE, Kenya

I: INTRODUCTION

All investors expect a certain amount of return on their investment for the risk taken. Firms can allocate profits to their stockholders either through dividends or share repurchases. Investors can get a return on their investment through dividends (current income). Alternatively, if a company has a lucrative investment opportunity available, it may not distribute its profits. The outlay in a profitable venture will also increase the value of a company, resulting in capital gains (future income) to investors. Theoretically, both dividend payout and retention lead to shareholder wealth maximization. Thus, as concluded by [1], investors should not differentiate among dividends and retaining profits. However,

[1]'s assumptions of a perfect capital market, no taxes, certainty, and fixed investment strategy does not really exist.

Dividend policy is the guiding principles that firms use to determine the ratio of earnings to be distributed as dividends. This has been an area of research for many years though there hasn't been a globally accepted or observed dividend policy. Reference [2] defined dividend policy as an unexplained problem in finance. Dividend policy remains an open subject despite it been extensively researched in financial writings. Following the works of [3] and [1] it has remained a debatable area in finance. More so after [1]'s dividend irrelevancy theory where the dividend policy has no effect on the shareholders wealth in perfect capital markets.

In developed countries, dividend policy is important to both investors and managers, and extensive research has been undertaken. Dividend has two important aspects. First, the long-term financing position of the company. This is where dividend is regarded as a source of long-term finance to pursue profitable investment opportunities which will enable faster growth. External equity can be raised but it would attract a cost. Payment of dividends reduces funds available to finance profitable opportunities thus dividends can be retained as part of long-term financing decision. Secondly as a wealth maximization decision where investors prefer dividends rather than future capital gains mostly due to market imperfections and uncertainty. Further payment of dividends has an impact in market price of a share (according to the signaling theory) thus a higher dividend pushes the value of the company in the market and the reverse holds when level of dividends is low. Finance managers have to strike a balance between these two aspects. They should develop a dividend policy to balance the net earnings between long term financing and dividend distribution [4].

There are various theories that seek to explain dividend policy such as the irrelevance theory which argues that performance of a company is not pegged on the dividend policy, the bird in hand theory which poses that investors have a preference to dividends compared to capital gains. The tax preference theory that postulates that capital gains attract less tax compared to dividends further the tax is not paid until the capital gains are realized at disposal of the stock. According to [5] dividend policy is affected by both inside and outside factors. The inside influences include but not limited to earnings, leverage, investment opportunity, liquidity among others. Reference [4] categorized external factors as

macroeconomic factors such as gross domestic product, consumer tastes and preferences, changes in technology, infrastructure among others.

Various factors influencing a firms' dividend policy have been evaluated by researchers. The outcome of these studies has not entirely resolved the controversies linked to dividend decision. Hence, it is not astonishing that dividend controversy has been listed by [2] as one among ten of the most important unsolved corporate finance problems. Also, the determinants of dividend decision are not uniform across firms. Nevertheless, researchers have reported that determinants of dividends vary across countries and over different periods of time. Studies have also reported that variations in dividends across countries occur because of differences in economic policy for each country, including corporate governance policy and pertinent laws applicable [6]. Emerging and developed markets also differ in many ways. Reference [7] report that dividends in emerging market firms are more volatile than U.S. firms. Elsewhere, [8] also find that country-specific factors have an impact in determining dividend policies in emerging markets. Consequently, [9] have also reiterated that dividend behavior in emerging markets has not been evaluated extensively. Hence, it is necessary to evaluate the dividend paying behavior of emerging market firms in further detail.

Kenyan securities exchange market including a tremendous increase in the number of quoted companies, enhanced investor awareness and interest on the dividend decision, increased alternative investment opportunities in the market, closer regulation by the relevant authorities. Also including on leverage, liquidity and dividend payouts and the opening up of the regional markets giving investors an opportunity to participate in different financial markets in the region. These changes have affected the different sectors in the NSE differently. The effect of these changes on dividend payout is still unknown. This study therefore sought to fill this gap by establishing the factors that influence dividend payout for each sector among firms listed in the NSE.

II: OBJECTIVES OF THE STUDY

The broad objective of this research was to establish the effect of defined firm characteristics on dividend payout policy in listed firms at the Nairobi Securities Exchange.

The specific objectives were to:

- (i) To establish the effect of firm size on dividend payout policy of firms listed at the NSE.
- (ii) To evaluate the effect of leverage on dividend payout policy of firms listed at the NSE.
- (iii) To determine the effect of growth on dividend payout policy of firms listed at the NSE.
- (iv) To establish the effect of liquidity on the dividend payout policy of firms listed at the NSE.

III: METHODOLOGY

This refers to procedures for collecting, analyzing, interpreting and reporting data in the study [12]. This study employed explanatory survey research design as it is concerned with the causal explanation of events. The target population of this study was all 64 listed firms in the NSE as at December 2020. The data was obtained for the period 2016-2020. The study collected data from the firms with complete information for the period of the study. The study gathered data from the annual reports of the listed manufacturing firms in Nairobi securities exchange. The data collected was analyzed using descriptive and inferential statistics with the help of the computer software SPSS (Version 24). Descriptive statistics employed frequencies and percentages while inferential statistics was done through correlation and regression analyses. The analyzed data was presented in tabular forms. The data consisted of observations on the same n entities at two or more-time periods T .

Model specification:

$$DIVPOL_{i,j} = \beta_0 + \beta_1 SIZ_{i,j} + \beta_2 LEV_{i,j} + \beta_3 GROW_{i,j} + \beta_4 LIQ_{i,j} + \varepsilon$$

Where: $DIVPOL_{i,j}$ is the dividend policy of the firm i during time j ,

$SIZ_{i,j}$ is the Size measured by Total Assets of firm i during time j

$LEV_{i,j}$ is Leverage of the firm i during time j ,

$GROW_{i,j}$ is Growth of firm i during time j

$LIQ_{i,j}$ is the Liquidity of firm i during time j

β_0 is the constant term $\beta_1, \beta_2, \beta_3$ and β_4 are the coefficient to be estimated

ε is the error term which were assumed to be normally distributed.

IV: RESULTS AND DISCUSSION

A. Response Rate

Complete results were obtained from 32 firms.

B. Descriptive Statistics

As it can be observed from Table 1 on details descriptive statistics for the dependent variable dividend policy of companies quoted at the NSE for the period under study, the dividend policy fluctuated from - 3.48 to 3.27, a mean of 0.422 and 0.499 as the standard deviation. This implies that the mean dividend payout was 0.499. Some firms in the NSE asked the shareholders to add more capital, hence the negative payout.

Table 1 further shows the results descriptive statistics for the five explanatory variables used in the study to determine dividend policy by firms quoted at the NSE during the period under review. Generally, size fluctuated from a minimum of 13.6693 to a maximum of 22.4893, mean of 19.0487 and

1.5854 as the standard deviation. Liquidity fluctuated from a low of 0.33 to a high of 19.82 and with a mean of 2.5484 and 3.0784 as the standard deviation. Leverage of the firm ranged from 0.08 to 6.82, a mean of 1.36824 and 1.19719 as the standard deviation. Growth ranged from a minimum of -0.731563 to a maximum of 3.12086 review. Generally, size fluctuated from a minimum of 13.6693 to a maximum of 22.4893, mean of 19.0487 and 1.5854 as the standard deviation. Liquidity fluctuated from a low of 0.33 to a high of 19.82 and with a mean of 2.5484 and 3.0784 as the standard deviation. Leverage of the firm ranged from 0.08 to 6.82, a mean of 1.36824 and 1.19719 as the standard deviation. Growth ranged from a minimum of -0.731563 to a maximum of 3.12086.

Table 1: Descriptive Statistics

	N	Min	Max	Mean	St Dev
Size	160	13.67	22.49	19.05	1.59
Leverage	160	0.800	6.82	1.368	1.97
Growth	160	-0.732	3.12	0.190	0.291
Liquidity	160	0.33	19.82	2.55	3.09
Dividend Payout	160	-3.48	3.27	0.422	0.499

C. Regression Results

Correlation coefficient was used to assess the inter relationship among the variables. Correlation analysis shows the direction, strength and significance of the relationships among the variables of study [10]. To establish whether there was a relationship between the variables, a correlation analysis was conducted. The correlation analysis shows the direction, strength, and significance of the relationships among the variables of the study [10].

Table 2: Correlation between Study Variables

	DIVPOL	SIZ	LEV	GROW	LIQ
DIVPOL	1				
SIZ	.646***	1			
LEV	-0.594***	.136	1		
GROW	.712***	.124	.056	1	
LIQ	.412***	.032	.001	.065	1

Note: * p < 0.10, ** p < 0.05, *** p < 0.01

Table From the results in Table 2, several conclusions can be drawn. First, it has been indicated that firm size is significantly and positively correlated with dividend policy. This is indicated by the correlation coefficient of 0.646 that is significant (p < 0.01). This implies that there is a strong and significant positive association between firm size and dividend policy. Furthermore, leverage is negatively and significantly related to dividend policy as shown by the correlation coefficient of -0.594 (p < 0.01). This implies that there is a moderate but significant negative association between leverage and dividend policy.

Moreover, Table 2 shows that firm growth is also positively and significantly correlated with dividend policy with a significant correlation coefficient of 0.712 (p < 0.01). This implies that there is a strong positive association between firm growth and dividend policy. The correlation between liquidity and dividend policy was found to be a significant 0.412 (p < 0.01). The implication here is that there is a weak but positive association between liquidity and dividend policy.

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Sig
1	.856 ^a	.732	.728	.000

The model summary table above indicates that the general correlation between defined firm characteristics and dividend policy is positive and high. This is shown by the model correlation coefficient of 0.856. The suitability of the model in predicting dividend policy is revealed by the coefficient of determination (R square) value of 0.728. This implies that the 72.8% of dividend policy can be predicted by managing the defined firm characteristics, with other factors not in the model predicting the remaining 27.2%.

Table 4: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.	
1	Regression	60.425	3	20.14	468.37	.000 ^a
	Residual	6.773	156	.043		
	Total	67.198	159			
a. Predictors: (Constant), <i>SIZ, LEV, GROW, LIQ</i>						
b. Dependent Variable: <i>DIVPOL</i>						

The analysis of variance (ANOVA) Table 4 above shows that the model that predicts dividend policy in the listed firms using the measures of defined firm characteristic is significant. This is based on the relatively large F-value of 468.37 that is significant. It therefore implies that the model is a significant predictor of dividend policy in the listed firms.

Table 5 below show the regression coefficients.

Table 5: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t-stat	Sig.
		Beta	Std. Error	Beta		
1	(Constant)	0.376	0.286		1.315	.002
	<i>SIZ</i>	0.391	0.165	0.308	2.370	.038
	<i>LEV</i>	-0.401	0.154	0.421	-2.600	.021
	<i>GROW</i>	0.296	0.106	0.207	2.792	.010
	<i>LIQ</i>	0.372	0.162	0.291	2.300	.000

Dependent Variable: *DIVPOL*

From Table 5 above, several inferences can be derived. The

constant term in the regression equation of 0.376 indicates the level of dividend policy that is in existence in the listed firms.

On the regression between defined firm characteristics and dividend policy, the first objective was to establish the effect of firm size on dividend policy at the listed firms. Table 4.13 shows that firm size has a positive significant effect ($\beta = 0.391$, $p = 0.038$) on dividend policy of the organization. This implies that holding all factors constant, a unit increase in firm size leads to a 39.1% significant increase in dividend policy at the listed firms.

The second objective was to establish the effect of leverage on dividend policy. Regression results in Table 5 show that leverage affect dividend policy negatively and significantly ($\beta = -0.401$, $p = 0.038$). This implies that a unit increase in leverage results in a 40.1% decrease in dividend policy when all factors are held constant.

Regression results based on the third objective which was to determine the effect of firm growth on dividend policy of the listed firms shows that firm growth has a positive significant effect on dividend policy ($\beta = 0.296$, $p = 0.010$). This implies that when all factors are held constant, a unit increase in firm growth management leads to a 29.6% significant increase in dividend policy in the organizations.

The fourth objective of the study find out the effect of liquidity on dividend policy at the listed firms. Regression results show that liquidity has a positive significant effect ($\beta = 0.372$, $p = 0.000$) on dividend policy. This implies that if all other factors are held constant, a unit increase in liquidity leads into a significant increase in dividend policy of 37.2%.

Generally, the fitted model based on the study findings is as follows:

$$DIVPOL = 0.376 + 0.391SIZ - 0.401LEV + 0.296GROW + 0.372LIQ + \varepsilon$$

V: CONCLUSION AND RECOMMENDATION

Based on findings for the first objective, which showed that firm size has a positive significant effect on dividend policy hence implying that holding all factors constant, a unit increase in firm size leads to a significant increase in dividend policy, it is concluded that firm size is an important factor in enhancing dividend policy in the organizations.

Following the analysis from the second objective that leverage affects dividend policy negatively and significantly, it is concluded that leverage is a significant contributor to dividend policy in organizations. Furthermore, of the four defined firm characteristics, leverage was found to have the most significant effect. It is concluded therefore that leverage is very important in enhancing dividend policy of organizations such as Firms listed at the NSE.

Regression results based on the third objective show that firm growth has positive significant effect on dividend policy

implying that when all factors are held constant, an increase in indirect supply procurement leads to a significant increase in dividend policy in the organizations. It is therefore concluded that indirect supply procurement is significantly important in enhancing dividend policy in the counties.

Findings from the analysis of data based on the fourth objective which was to establish the effect of liquidity on dividend policy firms listed at the NSE show that liquidity has a positive significant effect on dividend policy. It is therefore concluded that liquidity is a significant positive contributor to dividend policy in the counties.

In line with the first objective's findings which showed that firm size has a positive significant effect on dividend policy and conclusion that firm size is an important factor in enhancing dividend policy in the organizations, it is recommended that efforts to increase sales in order to enhance firm size are introduced in the firms listed at the NSE in order to ensure that the unstable dividend policy is arrested.

Based on the analysis from the second objective that leverage affects dividend policy negatively and significantly and the conclusion that leverage is a significant negative contributor to dividend policy in organizations, it is recommended that leverage efforts are strengthened by instituting stricter controls in order for dividend policy in firms listed at the NSE is stabilized.

The analysis of the third objective which showed that firm growth has a positive significant effect on dividend policy, and the conclusion that growth is significantly important in enhancing dividend policy in the organization, it is recommended that the sales departments are strengthened by more training in order to enhance their skills and competency by training them, which will at the end stabilize the dividend policy in the organization.

Findings from the analysis of data based on the fourth objective which was to find out the effect of liquidity on dividend policy and whose findings showed that liquidity has a positive significant effect on dividend policy, it was therefore concluded that liquidity is a significant positive contributor to dividend policy. This study recommends that the liquidity practices be aligned with the relevant laws for them to be more accurate.

Business age on the other hand was shown to have no significant effect on the on the relationship between financial literacy and financial performance of the craft micro enterprises.

It is recommended that stakeholders in the craft industry enhance financial literacy trainings to the entrepreneurs with emphasis on growing the craft micro enterprises by increasing financing if they seek to improve their financial performance.

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