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# RELATIONSHIP BETWEEN FIRM FINANCIALS AND DIVIDEND POLICY OF FIRMS LISTED AT NAIROBI SECURITIES EXCHANGE, KENYA

By

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## ABSTRACT

There is substantial evidence on inconsistencies in paying dividends by listed firms in the Nairobi Securities Exchange have been on the upsurge since 2010. In year 2017, only two firms managed a special dividend in addition to normal dividends. Studies have found that over a third of listed firms at the NSE have not paid dividends since 2014. All further 15 companies have been reducing their dividends per share. Even though this has been attributed to profit making, reorganization of business models and a drive to expand as some of the key reasons, there has been conflicting information annually on the reasons why, with reference to successive annual reports since 2010 in spite of the ever changing market dynamics. The inconsistencies on market reports and studies done have found literally that this area should be relooked with no well-known study having been done to link firm financials to dividend payments in the recent years most notably at the firms listed in the NSE. Consequently, this study sought to fill the knowledge gap by assessing the relationship between firm financials and dividend policy of listed firms at NSE, Kenya. The specific objectives of the study were: to establish the relationship between firm size, profitability, capital base and ddebt-equity mix on dividend policy among firms listed at NSE, Kenya. This study adopted a descriptive research design. The study targeted 38 firms listed that paid dividends over the study period of 5 years. The study used secondary data covered the year 2011 to 2015. The data analysis techniques involved descriptive statistics, correlation and panel regression. Regression analysis findings indicate that firm size and dividend policy are positively and significantly related (β=4.250821, p=0.014). The stud further found that profitability and dividend policy are positively and significantly related (β= 2.157921, p=0.022). Capital base and dividend policy are positively but insignificantly related (β =2.23343, p=0.068). Regression of coefficients findings indicate that debt-equity mix and dividend policy are positively are positively and significantly related (β= 0.050463, p=0.000). Based on the findings above, the study concluded that firm size is a critical component explaining dividend policy of a firm. Larger firms are able to pay dividends largely due to their strength to pay dividends. The study also concludes that profitable firms with reliable net earnings can afford more free cas-flows and thus pay more dividends. Evidently, firm's profitability ratio is a significant determinant of the dividend payout policy. Firms with higher leverage have bigger debts and interest obligations to settle hence higher chances of paying lower dividends. Firms that rely much on debt to finance its operations pay low dividends because they are monitored by debt-holders who lowers management capability to pay dividends.

**Key words:** Firm-size, Profitability, Capital base, Debt-equity mix, Dividend policy and Nairobi Securities Exchange.

## Introduction and Background

Dividend policy issue has been a dubious issue since the presentation of irrelevance theory by Modigliani and Miller in 1961 the point at which they had confidence in the world of productive market where profit arrangement does not influence the investor's riches. Ouma (2012) characterizes dividend as that bit of an organization's net income which the executives prescribe to be dispersed to investors in extent to their offer property in the organization. At the point when a firm generates profit, they can agree on what to do with the gains. They could continue holding the advantages inside the association, or pay out the advantages to the proprietors of the firm as benefits.

An analysis of dividend policies in developing economies is not fully grown (Ehikioya, 2015). Growing markets contrast those in advanced economies in terms of corporate governance (Mitton, 2004; Lin, 2002). Furthermore, firms in growing markets are limited in terms of monetary than their partners in advanced markets Glen and Singh, (2004); they frequently have less data effectiveness, greater unpredictability, and are littler market capitalization Masum (2014) which may have contrast impact on their profit strategy. As a delineation, in Anh (2015) contemplate, it demonstrated that the developing business sector firms took after flimsy money profit approaches and the principle factor that decides the measure of money profits was the income of the company in that year. Aviation and Booth (2010) likewise settled that organizations in creating nations were less hesitant to change its profits than their United States partners. The distinctions of the specific markets themselves brought up the issue about the degree to which the contending profit arrangement speculations could apply to such markets, specifically to Kenya.

In spite of the fact that a critical monetary arrangement, the dividend policy approach stays a standout amongst the most perplexing problems in corporate fund (Baker *et al.*, 2011). As per Desai *et al.* (2001) a noteworthy obstacle to comprehending corporate profit strategy is the accessibility of various conceivable clarifications for watched conduct. Among the central clarifications worried by current hypotheses incorporate office and other educational issues amongst proprietors and directors Bebczuk, (2004). In this manner, while the investors utilize profits to wrest assets from the control of supervisors, corporate chiefs then again utilize profits to send dependable gainfulness signs to the capital market.

As per Rigár and Mánsouri (2003), the approach of policy of dividends rehearsed by an enterprise is a hearty flag of a company's execution, despite the fact that connection between the two factors dont meet unanimity of hypothetical and experimental research. In reality, liberal circulation of benefits for investors is termed as a flag of treasury ease as it can be deciphered as demonstrating deterrents at the level of venture skylines (Pourheydari, 2009). Thus, keeping up benefits to be reinvested is an activity that is for the most part less valued by investors, and frequently severely translated by the market, particularly on account of recorded organizations,

yet this may likewise be considered as a flag of solid development possibilities (Salehi and Biglar, 2009). Along these lines, there are numerous components influence the execution of corporate associations and one of those elements is profit arrangement.

Experimental examinations for instance by Waithaka et al. (2012) and Uwuigbe, Jafaru and Ajayi (2012) demonstrate that organizations in creating Countries for instance in Kenya smooth on their salary and hence, their profits. The example of corporate profit approaches fluctuates after some time as well as crosswise over nations, particularly between created, creating and developing Capital markets (Zhou & Roland, 2006). In the event that the estimation of an organization is the capacity of its profit instalments, profit strategy will influence specifically the association's cost of capital, speculation openings among others (Marfo-Yiadom and Agyei, 2011).

Profit arrangement is essential for organizations since it choose that how much store held by the business entity for speculation and how much reserve given to investors as profit (Ross, Westerfield, and Jaffe, 2002). Further, the profit approach advises the firm execution to investors. The cost of capital is affected by future money streams and future potential profits controlled by the firm speculation (Foong, Zakaria,&,Tan,2007). with low beneficial resources set up, high present and future speculations and high use, don't lean toward profits since financing venture with new hazardous securities is costly (Barely et al., 2005).

Nairobi Securities Exchange (NSE) is Kenyan stock-market for posting and exchanging of different securities. Since 1957, the NSE has reliably offered an all around directed, strong and world class stage for the exchanging of values and bonds. The Nairobi Securities Exchange's Market Capitalization is $0 balanced US Dollars as of March 2017. In spite of the fact that the essential money utilized by the Nairobi Securities Exchange is the Kenyan shilling (KSh). Market Capitalization to GDP proportion, which when contrasted with the noteworthy proportion is a pointer that a market is finished or underestimated, is 0% (www.nse.co.ke).

Firm financials refers to the overall net worth of a firm in a specified financial year comprising of firm size, profitability, capital base and debt-equity mix. Firm financials reflects an organization's capacity to create pay over a given timeframe (Santos & Brito, 2012). Firm execution can be estimated by the income produced by the organization as far as benefit (Murekefu & Ouma, 2012). Firms that have never paid profits additionally become quicker than those which have not paid profits. Firms paying high profits have poor speculation openings, in light of the fact that their inner wellspring of back has been drained by the installment of profits (Fama & French, 2001).

Profit arrangement can be depicted as the approach a firm employs to agree on the to pay investors. The profit arrangement a firm receives has suggestions for various partners, for example, chiefs, loan specialists, and speculators (Amidu & Abor, 2006). The outcomes propose that, gainful firms tend to pay huge profit. A decent liquidity ability builds a firm`s capacity to pay profit. The outcomes likewise indicate negative relationship between profit pay-out and

hazard, institutional ownership, development and market-to-book value. The study further poses finding that firms encountering acquiring unpredictability think that it's hard to pay profit, such firms would along these lines pay less or no profit. The bigger the institutional ownership the lesser the profit pay-out proportion, which means firms pay profits to decrease the cost related with agency problems.

**Statement of the Problem**

There has been adequate literature on inconsistencies in remittance of profits by listed firms at NSE, Kenya. In the year 2016 only two firms managed a special dividend in addition to normal dividends (NSE report, 2016). An analysis by Business Beat (2017) on the firms at NSE established that more than a third of the companies hadn't released profits since 2014. Moreover, 15 firms have been decreasing their dividends per share. Though this has been alluded to profit making, reorganization of business models and a drive to expand as some of the major reasons, with reference to successive annual reports since 2010, there has been conflicting information on the reasons why, many firms at the Nairobi Securities Exchange which is trading at eight year low increasingly becoming reluctant to announce dividends or issue bonuses leaving owners of capital waiting.

Some of these inconsistencies in dividend payments have been realized over the years despite the efforts of individual companies re-strategizing on the shortcomings for the ever changing market dynamics. Even though Investigations of created and rising capital markets demonstrate that one of the essential elements deciding the penchant to pay profits is the development impact (Oyinlola, & Ajeigbe, 2014), there has not been well known studies clearly linking dividend payments to firm financials. King'wara (2015) established that dividend payout ratio of non-financial firms in Kenya is impacted negatively by debt ratios and firm size and positively by earnings and retained earnings to total assets ratio.Various empirical works have been carried out on this topic. Musiega *et al* (2013) investigated the determinants of dividend payout of non-financial companies listed on NSE. Anh, (2015) studied factors influencing dividend policy formation of business firms listed in Vietnam Stock Markets. His objective was to examine deterministic components in profit approaches of recorded enterprises in Vietnam Stock Markets. The inconsistencies on market reports and to the best of the researchers' knowledge, there are no well-known studies linking firm financials to dividend payments in the recent years most notably at the firms listed in the NSE hence seeking to fill the knowledge gap on firm financials and dividend policy.

**Study Objectives**

The study sought to achieve the following specific objectives:

i. To establish the relationship between firm-size and dividend policy among selected firms listed at NSE, Kenya.
ii. To determine the relationship between profitability and dividend policy among selected firms listed at NSE, Kenya.

iii. To establish the relationship between capital base and dividend policy among selected firms listed at NSE, Kenya.

iv. To determine the relationship between debt-equity mix and dividend policy among selected firms listed at NSE. , Kenya.

*** Hypotheses were developed and tested (at a Significance Level of 0.05) for each of the specific objectives to determine the significance of the relationship between the respective variables of interest.**

## Literature Review

The section reviews general theoretical literature and empirical literature relevant to the study

### Theoretical Review

The theoretical background of this study was based on various theories. These theories are transaction cost theory, agency theory, signalling theory and bird in the hand.

### Transaction Cost Theory

A different explanation, which received little consideration prior to the 1980s, relates dividend policy to the effect of agency costs (La Porta *et al.,* 2000). Agency costs, in this case, are costs incurred in monitoring company management to prevent inappropriate behaviour. Alongside of the mental hazard avoidance, exchange costs is known as a factor driving financial specialists consider in the case of offering stocks for capital picks up or holding for intermittent profits instalment. At the point when organizations pay low or nothing for profits, financial specialists tend to offer their offers for a benefit that emerges from the exchange expenses and financier. These expenses end up noticeably costly with person stocks and small volume,(Howe *et al.*,1992). so the pay from capital additions can't totally supplant the profits salary as the hypothesis of Miller and Modigliani. Clearly, financial specialists would hope to gain a high profit payout proportion to decrease costs. (Mueller, 1967; Alli *et al.,* 1993). This theory was used to enhance the relationship between financial and dividend policy. It indicated how firms causing vast exchange expenses needed to decrease profit payouts to dodge the expenses of outer financing. Objective 2 of the study; determine the relationship between profitability anddividend policy among selected firms listed at NSE, Kenya was informed by this theory.

### Agency Theory

It was founded by Jensen and Meckling in 1976 relies on the debate amongst owners and managers or agents. Mill operator and Schools (1978) found that the impact of duty inclinations on demographic and finish up various expense rates on profits and capital pick up prompt diverse customer base. Agency cost is likewise one of the variables influencing on the profit instalments rate. At the point when the organization pays a high profit payout proportion, trade stream out business organization will be restricted. The organization must issue extra offers available for raising funding to extend the business. Accordingly, the quantity of investors increment and friends' capital from outside administrations is utilized all the more proficiently, and the premiums of investors are upgraded. Financial specialists will respond emphatically with data about the high rate of instalment profits (Jensen and Meckling, 1976).

Regardless of whether a firm does not have free income, profit instalments can in any case be helpful for the investors keeping in mind the end goal to control the over speculation issue. This theory depends on the contention amongst administrators and investor and the level of value controlled by insider possession should impact the dividend policy. It will be used to establish how firm financials affect dividend policy and how much influence the conflict between managers and shareholders have (Amenta, 2013). This theory anchors objective 1; to establish the relationship between firm size anddividend policy among selected firms listed at NSE, Kenya.

**Signaling Theory**

Signalling theory indicated that information asymmetry in the market enables administrators to utilize profits as an instrument to outcompete competitors (Healy & Palepu, 1988). The clarification with respect to the flagging hypothesis given by Bhattacharya (1980) and John Williams (1985) profits relieve data hilter kilter amongst directors and investors by conveying inside data of firm future prospects. Easterbrook (1984) gives help illumination concerning office cost issue and says that there are two kinds of office expenses; one is the expense of checking and other is expense of hazard avoidance as regards to directors or managers.

Likewise alluding to the part of corporate administration; nonetheless, flag hypothesis remains on an alternate point of view to clarify the profit arrangement of the undertaking. As per this hypothesis, profit approach was gathered as a flag to the market administrators and financial specialists Bhattacharya (1980), John Williams (1985). At the point when the flag of high profit proportion that contains numerous positive substances of the tasks, income, and future income of the business is spread, financial specialists will reaction individually after receiving this signal. A positive signal can make investor acquire stocks. This theory is important for this study in showing how information asymmetry in the market enables administrators to utilize profits as an instrument to outcompete competitors. The theory anchored the objective; to determine the linkage between debt-equity mix and dividend policy among selected firms listed at NSE, Kenya.

**Bird-in-The-Hand Theory**

In reality entrepreneurs used same rate of discount in estimating present value on available stream of cash fow despite being characterised by differing risk levels (Linter, 1962). The theory takes an essentially different view in particular holding that investors indifferent between dividends today and an equivalent amount of capital gains in the near future (Bhattacharya, 2001).

Gordon and Shapiro (1956) further adds that, entrepreneurs would rather prefer a more certain dividend today and to a more uncertain capital gain tomorrow. Investors therefore discount the expected capital gain yield at a higher rate than the dividend yield hence in many occations firms engaging in high dividend payout pay stockholders preferring high current payout a lower total rate of return than firms that follow lower dividend payout (Kirshman, 1963). This theory

answered the research objective; to establish the relationship between capital base and dividend policy among selected firms listed at NSE, Kenya.

**Empirical Review**

The study reviewed several empirical work with an objective of documenting empirical gaps forming the empirical achoring of the study.

**Firm Size**

Ongeri (2014) conducted a study to establish the determinants of dividend payout. This was a correlation research study. The results found that firm size had a positive correlation with dividend payout.

Waswa (2013) conducted a study to investigate the determinants of dividend payout of Kenya Agricultural sector. The study covered the period from 2005-2010. The research design was non-experiment and quantitative. The results also found a negative relationship between firm size and dividend payout.

Musiega *et al.*, (2013) conducted a study to examine the determinants of dividend payout of non-financial firms listed on Nairobi Securities Exchange. Secondary data was gathered from firm's financial reports. Fime size was taken as moderating variable. Firm size increased the precision of significant variables major determinants of dividend payout.

Kathuo and Kimoro (2017) did a study on the determinants of dividend policy decisions of the listed banks in Kenya. The study used correlation research design. The study established that bank size has insignificant effect on the dividend policy among the banks studied.

**Profitability**

Nyandumo (2014) did a study to investigate the effect of profitability on dividend policy of manufacturing firms listed in NSE. Descriptive research design was used. The results found that profitability is a strong predictor of firms' ability to pay dividends.

Migwi (2015) conducted a study to analyze the relationship between profits and dividend policy of commercial banks in Kenya from 2009-2014. The study adopted descriptive research design. This study found a significant relationship between dividend policy and the profitability of commercial banks.

Elmi and Muturi (2016) conducted a study on the effects of profitability on dividend payout by commercial and services firms listed at NSE. Descriptive research design was utilized. Data for the firms for 10 years (2005 – 2014) was gathered. Profitability was an insignificant factor in determining dividend payout.

Amidu and Abor (2006) examined the determinants of profit payout proportions of recorded firms in Ghananian Stock Exchange. In their investigation they utilized an example of firms

covering 1998-2003. Their outcomes demonstrated that there was a positive connection between profit payout and productivity, income, and duty. It was concluded that more profitable firms paid higher dividends.

**Capital Base**

Murage (2016) conducted a study to examine the effect of capital structure on dividend pay out ratio of firms listed at the NSE. The research design to be used is a descriptive research design. There was negative significant between capital base and dividend pay-out ratio.

Kosgei (2017) conducted a study on the determinants of dividend payout policy by listed companies listed in Nairobi securities exchange, Kenya. The study adopted a survey case study research design. The study findings indicated a significant relationship between capital base and dividend payout policies.

Kaźmierska-Jóźwiak (2015) conducted a study on the determinants of dividend policy the case of polish listed nonfinancial companies covering 2000 to 2012. Data was gathered from Thompson Reuter's database. The study found that capital base affects dividend payout decisions.

Kajola, Desu and Agbanike (2015) conducted a study on factors affecting dividend payout policy decisions of Nigerian listed firms. Panel data methodology was employed using fixed and random effects models. Result reveals that capital base and changes in the dividend payout are significant factor that affect dividend policy decisions.

**Debt-Equity Mix**

Mwanga (2014) conducted a study to establish the effect of debt financing on dividend policy of firms listed at the Nairobi Securities Exchange between 2009 to 2013. The study employed longitudinal research. The study examined the relationship between debt financing and dividend policy. The study findings conclude that a negative relationship does exist.

Asif, Rasool and Kamal (2011) did study to examine the relationship between dividend policy and financial leverage of listed firms in Pakistan from 2002-2008. The findings revealed that change in earnings has no significant impact on dividend policy.

Mworia (2016) conducted a study to determine if there is a relationship between companies selected factors and the companies' dividend payout ratios. Secondary data covered the period 2011 and 2015. There was a negative significant between firms leverage and dividend payout ratio.

Food industry companies have positive effect on variables in dividend yield and changes income, but debt ratio has no meaningful relationship on dividend per share. It has only positive relationship, if the rate of debt ratio is less than dividend yield.

## Conceptual Model

According to Serakan (2003) it is a figurative representation of research variables. Figure 1 shows the relationship among firm size, profitability, capital base and debt-equity (independent variables) and dividend polcy as depended variables.

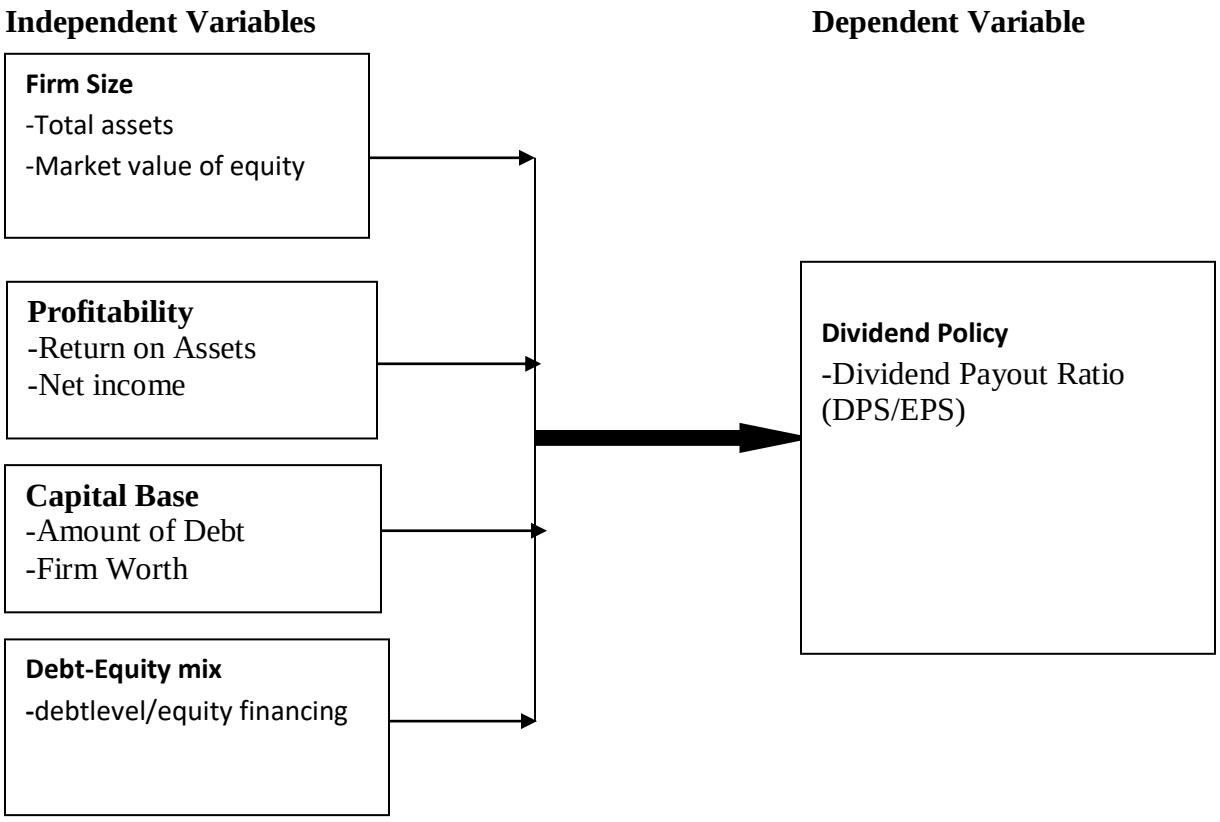


**Figure 1: Conceptual Model**

**Source: (Author, 2018)**

## Research Methodology

The study employed descriptive research design using quantitative research strategies. . The firms targeted in the study were non financial listed firms who paid dividend from December 2011 to December to 2015. There were 55 firms minus 17 firms in banking and insurance industry which giving a sample of 38 firms (NSE,2014). Sampling of respondents did not apply since the study utilized secondary data.

The study relied on secondary data. Secondary data refers to data acquired from a different source but not from the user. Secondary data was obtained from books of accounts of the listed firms and covered firm financials and dividend policy of selected firms listed at NSE Kenya. These data was extracted from the firms` yearly publications. The covered the year 2011 to 2015.

Data was analysed using Stata software. Data analysis technique involved descriptive analysis and inferential analysis. Descriptive analysis involved a descriptive table while inferential statistics involved correlation analysis and panel regression analysis. The panel regression model adopted is captured below:

$Y_{it} = \beta_0 + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 X_{4it} + u_i$

**Where:**

$Y_{it}$=Dividend policy for firm i at time t

$B_o$= intercept

$B_1$- $B_4$= Regression coefficients

$X_1$: Firm Size for firm i at time t

$X_2$: Profitability for firm i at time t

$X_3$: Capital Base for firm i at time t

$X_4$: Debt-Equity for firm i at time t

**Results and Findings**

**Descriptive Analysis**

This section provides descriptive results for the variables. Descriptive statistics used were mean, minimum, maximum and standard deviation. The results are presented in Table 1.

**Table 1: Descriptive Statistics**

| Variable | Obs | Mean | Std. Dev. | Min | Max |
|---|---|---|---|---|---|
| Dividend policy | 190 | 23.2783 | 357.4164 | -257.2700 | 223.06 |
| Firm size (KES'000) | 190 | 1.98E+07 | 3.88E+07 | 185755 | 2.35E+08 |
| Profitability | 190 | -0.82713 | 12.64084 | -174.007 | 5.052115 |
| Capital base | 190 | 0.776995 | 0.65046 | 0.065549 | 4.956692 |
| Debt equity | 190 | 7.390586 | 164.1358 | -1021.7 | 1941.298 |

**Source: research data (2018)**

The average dividend policy was positive indicating that on average most firms listed in the NSE, Kenya preferred to retain more funds than to pay dividends to shareholders. The negative value shows that some firms did not pay dividends. The results are in agreement with Baker and Weig and, (2015) that ddividend payout policy is a critical corporate issue and might be firmly identified with, and communicates with, the majority of the money related and speculation choices firms make. A legitimate comprehension of dividend payout policy and the factors

influencing dividend payout is basic for some different territories, for example, resource evaluating.

The average firm size measured as total assets were in million shillings. The results indicate that most firms had sufficient total assets to run their operations effectively. However, some firms were more endowed with resources than others. The results are in agreement with Eddy *et al*,(1988) who established that large firms tend to distribute higher amounts of their profits as cash dividends than smaller firms. As indicated in Table 1 above, the mean value of profitability measured as return on assets was positive. The positive average return on assets indicates that most firms were on average making profits although some firms were operating at a loss as reflected in the negative maximum observed value of return on assets. The results are in agreement with Zhou & Roland (2006) found a contradiction in views held by market observers that firms which tend to have high dividend payouts experience strong future earnings albeit relatively low past earnings.

Further as indicated in Table 1 the average capital base (amount of debt) was positive. The minimum, maximum and standard deviation of capital base were positive. The results imply than most firms' capital base is from debt. The results are also in agreement with Akintoye (2008) that if an organization's debt portion increases, at that point the estimation of firm will likewise increment. The average debt equity mix measured as ratio of debt level to equity financing was positive. The minimum debt equity mix was negative while the maximum debt equity was positive. The negative results indicate that some firms were financing their operations using debt. The positive maximum indicates that some firms were financing their operation using equity. On average most firms financed their business operations using equity. The results are also in agreement with Crotchety and Hansen (1989) who recommended that paying high profits can lessen office costs on the grounds that the chance to build the quantity of offers has expanded.

**Correlation Analysis**

Correlation illustrates the association between variables (Levin & Rubin, 1998). Correlation indicated the association between the predictor variables and outcome variable. Table 2 presents the results of the correlation analysis.

**Table 2: Correlation Table**

| | **Dividend policy** | **Firm size** | **Profitability** | **Capital base** | **Debt equity** |
|---|---|---|---|---|---|
| Dividend policy | 1.000 | | | | |
| Firm size | 0.675<br>0.000 | 1.000 | | | |
| Profitability | 0.516<br>0.000 | 0.477<br>0.000 | 1.000 | | |

| | | | | | |
|---|---|---|---|---|---|
| Capital base | 0.561 | 0.420 | 0.310 | 1.000 | |
| | 0.000 | 0.000 | 0.000 | | |
| Debt equity | 0.513 | 0.246 | 0.169 | 0.077 | 1.000 |
| | 0.000 | 0.001 | 0.020 | 0.290 | |

**Source: research data (2018)**

The correlation results found that firm size and dividend policy of listed firms are positively and significantly related (r=0.675). The results are in agreement with Najjar (2009) investigation found that firm size affects the dividend payout decisions. The results found that profitability and dividend policy of listed firms are positively and significantly related (r=0.516). The results contrast that of Arnott and Asness (2003) who alluded that there is a direct relationship between future earnings growth with high rather than low dividend payout. The results also indicated that capital base and dividend policy of listed firms are positively and significantly re lated (r=0.561). The results are in agreement with Khalaf Al Taani (2013) tested the firm's capital structure effect on firm performance. Debt equity and dividend policy of listed firms was found to be positively and significantly related (r=0.513). The results are in agreement with Fama and French (2002) likewise contended that organizations with low beneficial resources set up, high present and future speculations and high use, don't favor profits since financing venture with new dangerous securities is expensive.

**Regression Analysis**

The study performed diagnostic tests before conducting regression analysis. Regression analysis illustrates the relationship between variables. Results are illustrated in Table 3.

**Table 3: Model Results**

| Variable | Coef. | Std. Err. | z | P>z | [95% Conf. | Interval] |
|---|---|---|---|---|---|---|
| Firm size | 4.250821 | 1.728068 | 2.46 | 0.014 | 0.86387 | 7.637772 |
| Profitability | 2.157921 | 0.944155 | 2.29 | 0.022 | 0.307411 | 4.008431 |
| Capital base | 2.23343 | 1.222184 | 1.83 | 0.068 | -0.16201 | 4.628867 |
| Debt equity mix | 0.050463 | 0.002954 | 17.08 | 0.000 | 0.044674 | 0.056253 |
| _cons | -4.45418 | 12.10099 | -0.37 | 0.713 | -28.1717 | 19.26331 |
| R-sq: | within = 0.7679 | | | | | |
| | between = 0.8053 | | | | | |
| | overall = 0.5802 | | | | | |
| Wald chi2(4) = | 357.63 | | | | | |
| Prob > chi2 = | 0.0000 | | | | | |

**Source: Research Data, 2018**

The regression results found that firm size, profitability, debt and debt equity mix were found to be satisfactory variables in explaining dividend payout policy. This is supported by R square of

0.5802. This means that market value of equity, book value of assets and book value of debt explain 58.02% of the variation in dividend payout policy. The results are in agreement with Koduk (2016) that positive relationship between firm characteristics and dividend payout. Further, F statistic results in Table 3 indicated that the overall model was statistically significant. The results imply that the independent variables (firm size, profitability, debt and debt equity mix) are good predictors of dividend payout policy. This was supported by Wald statistic of 357.63 and a p value (0.000) which is less than the 0.05 significance level. The study also found that the timing of payment of dividends and the mode of dividend payment positively influences value of the firm while debt ratio negatively influences the value of the firm an indication that increase in debt levels reduces the value of the firm. As per the results above, the estimated model was as:

$$\mathbf{Y = -4.45418 + 4.250821X_1 + 2.157921X_2 + 2.23343X_3 + 0.050463X_4}$$

**Where:**

Y = Dividend policy (Dividend payout ratio)

$X_1$ = Firm size (log of total assets)

$X_2$ = Profitability (return on asset)

$X_3$ = capital base (debt)

$X_4$ = Debt equity mix (debt level/equity financing)

Regression of coefficients results in Table 3 indicates that the firm size has a positive and significant relationship with dividend policy (β=4.250821, p=0.014). This means that a unit increase in firm size measured as total assets would lead to a subsequent increase in dividend payout policy by 4.250821 units. The findings of the study also indicated that profitability has a positive and significant relationship with dividend policy (β= 2.157921, p=0.022). This means that a unit increase in profitability mesured as ROA would lead to a subsequent increase in dividend payout policy by 2.157921 units.

In addition, the findings of the study indicated that capital base has a positive but insignificant relationship with dividend policy (β =2.23343, p=0.068). The results agree with Al Shabibi and Ramesh (2011) did an investigation in UK and found no significant relationship between the leverage and dividend pay-outs. Debt equity mix has a positive and significant relationship with dividend policy (β= 0.050463, p=0.000). This means that a unit increase in capital base of a firm would lead to a subsequent increase in dividend payout policy by 0.050463 units.

**Discussion**

Regression of coefficients results indicated that firm size has a positive and significant relationship with dividend policy. This means that a unit increase in firm size measured as total

assets would lead to a subsequent increase in dividend payout policy. The results are in agreement with Fama and French (2000) that firm size influences dividend payout policy of a firm. According to Fama and French 2000, bigger and more profitable firms are able to pay dividends due to their ability to sustain the higher payout. However, as the size of the firm increases, shareholders are not able to monitor the firm effectively that might result to agency problems. The shareholders may demand more dividend payout to act as indirect monitoring mechanism. However, the results contrast Hafeez and Attiya (2008) who studied the determinants of dividend policy in Pakistan and found that there is a negative and significant relationship between dividend payout.

The findings of the study also indicated that profitability has a positive and significant relationship with dividend policy. This means that a unit increase in profitability mesured as ROA would lead to a subsequent increase in dividend payout policy. The results are in agreement with Tiriongo (2004) that dividend policies of Kenyan firms listed at the NSE depend profitability. The expected rate of return on assets determines the relative attractiveness of paying out earnings in the form of dividends to shareholders. However, the results contrast Amidu and Abor (2006) who maintained that profitability is negative and significantly associated with the dividend payout indicating that firms invest in assets in lieu of paying dividends to members.

In addition, the findings of the study indicated that capital base has a positive but insignificant relationship with dividend policy. The results agree with Al Shabibi and Ramesh (2011) did an investigation in UK and found no significant relationship between the leverage and dividend pay-outs. Debt equity mix has a positive and significant relationship with dividend policy. This means that a unit increase in capital base of a firm would lead to a subsequent increase in dividend payout policy. The results are contrast that of Mwanga (2014) that debt financing negatively affects dividend policy for firms listed at the NSE.

## Conclusion and Recommendation

### Conclusion

From the study findings, there are several conclusions made which are noteworthy. Based on the findings above, the study concludes that firm size has a has a positive and significant relationship with dividend policy. Size of a firm is considered as a critical factor in determining dividend policy of a firm. Large firms with more profits firms are likely to pay more dividends largely because of their strength to support the higher payout. As the firm grows it has the ability to pay a bigger ratio of its earning to its shareholders. The study also concludes that profitability has a positive and significant relationship with dividend policy. It is concluded that firms with more stable earnings will pay bigger proportion of its earnings as dividends than a firm with unstable earnings. The expected rate of return on assets explains the relative attractiveness of paying out dividends to shareholders. Profitable firms with more stable net earnings can afford larger free cash flows and therefore pay larger dividends.

The study further concludes that debt equity mix has a positive and significant relationship with dividend policy. Firms with lower profitable assets and high leverage, don't prefer dividends since financing businesses with new risky securities is expensive. A more leveraged firm is expected to return more to strengthen its equity base. More leveraged firms have more debt and interest obligations to hence higher chances of paying lower dividends. Firms that rely much on debt to finance its operations pay a low payout ratio since the firms are monitored by debt-holders who reduces firm's capability of paying dividends.

**Recommendations**

The study recommends that the management of listed firms in Nairobi Securities Exchange should ensure recommendable dividend policy that ensure that an institution is able to fulfill shareholders' needs thus increasing the firms size by attracting more investors as a results of favorable dividend payment policy. Listed firms at the Nairobi Securities Exchange should ensure continued payment of dividends to its shareholders and also keep an eye on their profitability as this is what determines the amount of dividends to be payout to stakeholders.

Since Capital Markets Authority of Kenya, the study recommends that the regulator should develop effective stock market policies that guide dividend payout policy. Debt equity mix has a significant effect on dividend payout ratio of listed firms. The study recommends an optimum and favourable balance when financing a firm either though debt or equity. Management of non-financial firms should aim at having high growth opportunities that would yield high profits this will make the firm to have high dividend payout which will improve investors' confidence in the firm hence value of the firm. The study recommends that the Nairobi Securities Exchange should formulate guiding policies that compel firms listed at the stock to at least pay dividends to the shareholders. This will attract investors to invest in the firms. The study recommends the that future scholars and academicians should attempt to include other firm financials like current earnings, dividends policy decision, political factors and liquidity that were not included in the study.

**Contribution to Knowledge and Practice**

This study therefore recommends that companies listed at the NSE observe their policies dealing with these variables in order to ensure that their dividend payout ratio is kept stable because of the key information that it passes to both investors and the general public. This is consistent with the signaling effect theory and will ensure stability at the NSE which in turn promotes a vibrant market. The findings therefore make a contribution to Signaling Theory on information asymmetry in the stock market. A positive signal can make investor acquire stocks. This theory is important for this study in showing how information asymmetry in the market enables administrators to utilize profits as an instrument to outcompete competitors. From managerial perspective dividend is used as a tool to mitigate agency problem by digesting extra free cash flow or to signal the market as the only better performing firms pay dividends. The findings of the study makes contribution to agency theory where large firms tend to pay good dividend to minimize agency problems. Large firms have the capacity to pay higher dividends that act as a

device of reducing agency problems. The study findings contribute knowledge to the agency theory. The study also contributes to the bird at hand theory that investors are willing to pay a premium in order to acquire stocks with higher dividend.

**Areas for further Research**

The study focused only on non-financial firms. A study on financial firms' dividend payment policy should be conducted in order to compare the dividend policy of non-financial firms and financial firms listed on the NSE. The researcher recommends additional research to determine the dividend payout behavior across sectors of firms listed on NSE. There are others factors that influence dividend payout policy not included in the model. The factors include current earnings, dividends policy decision, political factors and liquidity. Further research should include the two variables. Further research should be conducted to determine investors view on dividend policy by investigating portfolios of various investors e.g. demography so as to unearth the determinants of dividend policy. Furthermore, classification of the firms into specific sectors and deep study of each sector will produce a more robust result. The study found that capital base has a positive but insignificant relationship with dividend policy. Previous studies indicated that capital base has a positive and significant relationship with dividend policy. This is unique, further research should be done on the effect of capital base on dividend policy to confirm these results. This can be done by extending the scope of the study from 5 years to 10 years.

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