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ABSTRACT

Purpose: The purpose of this study was to examine the factors influencing dividend payout decision of financial and non-financial companies listed on Nairobi securities exchange.

Methodology: The study conducted a census on 33 financial and non-financial firms listed on the NSE consistently since 2003 to 2012.Panel data was analyzed using random effects Tobit and random affects probit models. The findings indicated that four variables; financial leverage, business risk, profitability and Earnings per share significantly influenced the amount of dividend paid.

Results: The findings indicated that four variables; financial leverage, business risk, profitability and Earnings per share significantly influenced the amount of dividend paid. Based on the findings, the study concluded that EPS, financial leverage and business risk play a key role in making the decision to pay or not to pay dividends. Earnings per share influences the decision to pay positively while both financial leverage and business risk influences the decision to pay dividends negatively.

Unique contribution to theory, practice and policy: The study also recommends that managers may use the study findings when making the dividend payout policies since they will be given useful information regarding which factors they may consider when determining the dividend payouts

Key words: *Dividend payout, financial companies, financial leverage, business risk*

1.0INTRODUCTION

1.1 Background of the Study

One of the vital components of corporate policy is examining dividend payout decisions. The dividend policy of a company determines the division of earnings between payments to stockholders and reinvestments in the firm. Finance manager's task is to allocate the earnings to dividends or retained earnings. Retained earnings are one of the most significant sources of funds for financing corporate growth. The latter makes it eventually possible to get more dividends. The topic of dividend payout has been of concern to financial managers and every firm at large. Firms face the dilemma of sharing dividend to stockholders and retaining their earnings with a the aim of reinvesting it back into the business to enhance further growth. The decision of any firm regarding how much earnings they could pay out as a dividend and how much they could retain is the concern of dividend payout decisions. (Lease *et al*., 2000)

Dividend payment pattern impact among other things company's stock price and reputation (Malik, Gul & Rehma, 2013). Paying out more cash dividends tends to increase the price of the stock. However, increasing cash dividends means that less money is available for reinvestment and reinvesting back fewer earnings into the business will lower the expected growth rate and invariably depress the price of the stock. The firm must, therefore, be very careful in deciding the allocation of earning to these two objectives.

Theoretically, corporate dividend payout is known to be a function of many factors. The said factors are not only internal but also external. Among internal factors is liquidity position, repayment of debt, reinvestment opportunities, stability of earnings and profitability of operations as well as the need for ownership control. The external factors include legal considerations, access to capital markets, cost-of-debts and change in technology (Weston and Brigham, 2001; Van Horne, 2002). The interplay of these factors remains a vital issue in the distribution of corporate earnings after-tax between retained earnings and dividends.

Dividend payout stipulates the proportion of earnings that a company pays out in cash to the shareholders. A business distributing a high proportion of its earnings as a dividend may reduce the amount of earnings retained in the firm thus affecting the total amount of internal financing. It can do this while pleasing the investors who have a preference for cash dividends. On the other hand, a company may adopt a low dividend payout policy, which though providing retained earnings finance, may send the wrong signal to the investors. The investors then interpret a low dividend payout as a sign of little management confidence in the company's future prospects (Pandey, 2010).

The essential aspect of dividend payout is to determine the amount of earnings the company should distribute to shareholders and the amount it should remain in the firm. Retained earnings are the most needed internal sources of financing the corporation's growth (Barclay, Smith and Watts, 2005). On the other hand, one may consider dividends desirable from a shareholders point of view as they tend to increase current returns. The term dividend, when used by itself, is understood to mean a distribution of cash by the company to its shareholders (Farida, 2003). The company may distribute dividends in many other forms including property, which are in terms of physical assets of the corporation, and stock dividends, which is the payment of additional stock to current shareholders. This research will focus on cash dividends since investors perceive dividends in terms of a cash return on their stock and are also the most common form of dividends.

In essence, the dividends payout decision has a direct impact on the company's financing options and the investors' perceptions of the company's prospects. The firm should give all critical factors consideration before setting a dividend payout. A company has to establish a balance between its interests and that of investors (Kuria, 2012).

1.2 Problem Statement

Corporate dividend payout policy has been an issue of interest in the financial literature for a long time. Additionally, despite the vast research on the topic, it remains an open subject. Ever since the work of Lintner (1956), followed by the work of Miller and Modigliani (1961), dividend policy remains a controversial topic. In fact, this has remained true ever since Miller and Modigliani's (1961) proposition of irrelevance. The latter stipulates that dividend policies are all equivalent and that there is no particular policy that can increase shareholders' wealth in perfect capital markets. For this reason, dividend policy has become the one of the most debated topics in corporate finance and among many academics. They try to find the missing pieces in the dividend puzzle for more than a half-century (Baker, Gary and Theodore, 2002). According to Frankfurter et al. (2002), forty years have been spent researching dividend policy, and thus far, it has not been resolved.

Dividends is not a new concept and payouts to shareholders have also been a standard procedure for most businesses in hundreds of years. However, some of the companies that recorded the greatest success during the last years like Apple and Google chose not to pay dividends (Ciaccia, 2012). This move indicates that it is possible to be successful without paying dividends, so why do firms make decisions to pay or not to pay dividends? Much of dividend policy studies have concentrated on developed economies of Western Europe and North America. A study of dividend policy of listed firms in African has become pertinent given the growing investments in the continent. A well-regulated stock market is a vehicle for economic development, and should have a spin-off effect on the dividend policy of public companies. The discrepancy in the dividend policy in African firms and the impact on the overall economic activities and growth has not gone unnoticed. Studies such as Vaivazian, Booth and Sean (2003), Nnadi and Akomi (2008) and Asamoah (2010) have focused on various implications of dividend policy in developing economies, particularly in Africa. The abnormal design of dividend in the region has often been a deliberate management policy. Since many studies have concentrated on developed economies, many studies need to be conducted in developing economies to bring out more insights into the topic. This paper, therefore, sought to examine the factors influencing dividend payout decisions of 33 financial and non-financial firms. These firms have been on the Nairobi Securities Exchange listing between 2003 and 2012 in Kenya, a country that among the developing economies. The study investigated the influence of various factors on dividend payout decision of firms listed at Nairobi Securities Exchange. The said factors are financial leverage, business risk, business growth rate, profitability, Earning per share, financial sector dummy and size of the firm. The study used seven objectives because previous studies have not combined all the seven in one study. For example, the study by Nnadi and Akomi (2008) used four objectives namely market capitalization, age and growth of firms and profitability. The study by Asamoah (2010) used one objective namely, a company's share prices. This study sought to answer the question: "What are the factors influencing dividend payout decision of financial and non-financial companies listed on Nairobi Securities Exchange?"

1.3 Objective of the Study

The core objective was to investigate the factors influencing dividend payout decision of financial and non-financial companies listed on Nairobi Securities Exchange.

1.3.1 Specific Objectives of Study

i. Establish the influence of financial leverage on dividend payout decision of financial and non-financial companies listed on the Nairobi Securities Exchange.
ii. Determine the effect of business risk on dividend payout decision of financial and non-financial companies listed on the Nairobi Securities Exchange.
iii. Investigate the influence of business growth rate on dividend payout decision of financial and non-financial companies listed on the Nairobi Securities Exchange.
iv. Determine the influence of Profitability on dividend payout decision of financial and non-financial companies listed on the Nairobi Securities Exchange.
v. Establish the influence of Earning per share(EPS) on dividend payout decision of financial and non-financial companies listed on the Nairobi Securities Exchange.
vi. Determine the influence of financial sector dummy on dividend payout decision of financial and non-financial companies listed on the Nairobi Securities Exchange.
vii. Investigate the moderating impact of firm size on dividend payout decision of financial and non-financial companies listed on the Nairobi Securities Exchange.

2.0 LITERATURE REVIEW

2.1 Theoretical Overview

2.1.1 Dividend Irrelevance Theory

This theory was advanced by Miller and Modigliani (1961). They argued that in ideal circumstances, the level of the firm's dividends will not affect the value of the firm with shareholders value being indifferent to an announcement of high or low levels of dividends.

Miller and Modigliani (1961) argued that the value of a company depends solely upon the investment opportunities available to it. They also argued that funds for investment are always available for worthwhile projects. That is, for a given set of investment opportunities the firm can raise sufficient capital externally and internally to fund both its investments programs and dividends. The company's management perspective of the dividend irrelevance view is that investment decisions should not be affected by dividend payout. In a situation of induced capital market rationing, it is accepted that investment choices will be influenced heavily by the amount of retained earnings. Such cases make dividend payout to impact on investment directly, and hence the argument by Miller and Modigliani (1961) won't apply (Maina, 2002).

According to the theory, dividend payments become irrelevant for the shareholders because to pay dividends, the company has to issue new shares to raise the capital needed. The price of the stocks will drop in equal proportions to the dividend payments following the issuance of new stocks. Similarly, the decrease in stock price and the dividend payments will cancel each other out (Modigliani & Miller, 1961). The implication of Miller and Modigliani (1961) proposition is that manager should spend more time managing the firm's assets. From a shareholder's perspective, irrelevance implies that they are indifferent between receiving returns as capital gains or as dividends. A lower dividend means a greater capital gain while a higher dividend implies a lower capital gain. The overall return is equivalent in either case.

Miller and Modigliani (1961) argued against the above propositions, asserting that the required rate of return is independent of dividend policy.

The current study was seeking to test the relationship between some factors and the firm's dividend payout decision. One of the factors is the company's profitability. The study sought to test whether there is a significant relationship between a firm's profitability and the dividend payout decision. It is probable to deduce that dividends may contribute to greater profits if there is a strong relationship between the profit acquired and the dividend payments. Since Modigliani and Miller state that dividend does not have an impact on profits, the study will hence seek to test the relationship. Even though this research disregards the supposition that capital markets are perfect, which is an important assumption, it will still test the theory on the Kenyan NSE market.

3.0 RESEARCH METHODOLOGY

The study conducted a census on 33 financial and non-financial firms listed on the NSE consistently since 2003 to 2012.Panel data was analyzed using random effects Tobit and random affects probit models. The findings indicated that four variables; financial leverage, business risk, profitability and Earnings per share significantly influenced the amount of dividend paid.

4.0 RESULTS AND DISCUSSIONS

4.1Descriptive Statistics

Table 1 indicates the mean and standard deviation of the variables captured under descriptive statistics. The table also indicates results for t test which was conducted to find out whether there was a significant difference between mean of the variables in the financial and non financial sectors. The mean amount of the log of dividends paid for the non-financial firms is 15.40988 with a standard deviation of 9.556722 indicating a large variability in the amount of dividends paid over time among the non-financial firms listed on the NSE. The financial firms had a mean amount of the log of dividend payout of 14.58394 with a standard deviation of 8.40397 which also indicated a large variability in the amount of dividend paid over time. The variability is, however, less than that of non-financial firms. A t test was conducted to test whether there was a significant difference between the mean amount of the log of dividends paid by non financial firms and that paid by financial firms. The null hypothesis which states that there is no significant difference between the mean amount of the log of dividends paid by the two sectors was accepted at a p-value of 0.4710.Therefore, there is no significant difference between the mean amount of dividends paid by the firms in the financial sector and that paid by the firms in the non financial sector.

The Mean earnings per share for the non financial sector firms was 7.1532 with a standard deviation of 13.83916 which also indicates a high dispersion in earning per share among non-financial firms listed on the NSE. The Mean earnings per share of financial firms were 6.3297 with a standard deviation of 7.3218 which also indicates a high dispersion in earning per share among the financial firms listed on the NSE. The variability of earnings per share among the financial firms was also less than that of the non-financial firms. The results of the t test conducted to ascertain whether there was a significant difference between the mean earnings per share of firms in the two sectors revealed that there was no significant difference between the mean earnings per share of the financial and non financial firms listed at the NSE (p value=0.5918)

The mean value of return on assets for non financial firms was 0.0862558 with a standard deviation of 0.1244 which indicates a small dispersion in profitability among the non-financial firms listed on the NSE. The mean value of return on assets was 0.028461 with a standard deviation of 0.023778 which indicates a small dispersion in profitability among the financial firms listed on the NSE. The variation in profitability is, however, smaller than the variation among the non-financial firms. The t test results indicate that there is a significant difference between the mean values of profits made by the non financial firms as compared to financial firms as indicated by a p-value of 0.000.

The t test results in Table 4.1 also indicate that there is a significant difference between the mean financial leverage and also mean business risk of the non financial and financial firms listed at the NSE.(p-value=0.0005,p-Value=0000 respectively).The financial firms face more business risks as compared to the non financial firms.

Table 1 Descriptive and T test

Variable	Group	Obs	Mean	Std. Dev.	Ho	t stat & p-value	Remark
	Non financial	240	15.40988	9.556722			
	Financial	90	14.58394	8.403971			
Amount of Dividend paid	combined	330	15.18463	9.251391	Ho: diff = 0	t=0.7218 (p=0.4710)	Accept H0
	diff		0.825945				
	Non financial	240	7.153292	13.83916			
	Financial	90	6.329778	7.321778			
	combined	330	6.92869	12.40029	Ho: diff = 0	t=0.5367 (p=0.5918)	Accept H0
Earnings per share	diff		0.823514				
	Non financial	240	0.086256	0.124438			
	Financial	90	0.028461	0.023779			
Business profitability	combined	330	6.92869	0.109846	Ho: diff = 0	t=4.3723 (p=0.000)	Reject H0
	diff		0.057794				
	Non financial	240	0.61486	0.55122			
	Financial	90	0.822658	0.114613			
	combined	330	6.92869	0.482565	Ho: diff = 0	t=-3.5445 (p=0.0005)	Reject H0
Financial leverage	diff		-0.2078				
	Non financial	240	0.189144	0.658367			
	Financial	90	0.160906	0.354388			
Business growth rate	combined	330	0.181443	0.590769	Ho: diff = 0	t=0.3862 (p=0.6996)	Accept H0
	diff		0.028239				
	Non financial	240	17.10618	3.921242			
	Financial	90	24.28895	0.354388			
	combined	330	19.06512	1.096353	Ho: diff = 0	t=-17.1137 (p=0.0000)	Reject H0
size	diff		-7.18277				
Business risk	Non	240	0.059942	0.091004	Ho: diff =	t=5.5422	Reject

financial				0	(p=0.0000)	H0
Financial	90	0.006617	0.009603			
combined	330	0.045399	0.081282			
diff		0.053325				

4.2 Pre-Estimation Tests

4.2.1 Correlation Analysis

The study assessed the associations among the predictor variables using the pair-wise correlation matrix. The study conducted a test to check the association among the variables in financial and non-financial sectors separately and then combined. The result in Table 4.2 shows the correlation matrix of the variables in the non-financial sector. The results indicate that most of the independent variables are showing coefficients with weak magnitude. There is a weak association among the independent variables in the non financial sector apart from the relationship between profitability and earnings per share which is significant with a correlation coefficient of 0.4872.The association between financial leverage and EPS and profitability is negative but significant though weak. Business risk has a negative but significant association with profitability but a positive and significant association with financial leverage.

Table 2 Correlation in Non- financial sector

	Earnings per share	profitability	Financial leverage	Business growth rate	size	Business risk
Earnings per share	1					
profitability	0.4872*	1				
Financial leverage	-0.1893*	-0.2940*	1			
Business growth rate	0.0057	0.0474	-0.1152	1		
size	0.0267	-0.0124	-0.2758*	0.2038*	1	
Business risk	-0.0598	-0.3932*	0.3057*	-0.1028	-0.2249	1

The results in Table 3 show the correlation matrix of the variables in the financial sector. Similarly the results indicate that most of the independent variables are showing coefficients with weak magnitude. There is a weak association among the independent variables in the financial sector. There is a positive and significant association between profitability and earnings per share. The association is however weak as indicated by a coefficient of 0.2878.The association among other variables in the financial sector is not significant.

Table 3 Correlation in financial sector

	Earnings per share	**profitability**	**Financial leverage**	**Business growth rate**	**size**	**Business risk**

Earnings per share	1					
profitability	0.2878*	1				
Financial leverage	-0.0421	0.0819	1			
Business growth rate	-0.0074	-0.0695	0.0221	1		
size	0.1498	0.1657	0.1224	0.1434	1	
Business risk	-0.1028	0.1906	-0.0229	-0.1171	-0.1286	1

Results in Table 4 indicates a positive and significant association between profitability and earning per share.The association is however stronger as compared to the same association when the sectors are separated. When the sectors are combined,the association between financial leverage and earning per share and profitability is negative and significant.

Table 4 Overall correlation

	Earnings per share	**Profitability**	**Financial leverage**	**Business growth rate**	**size**	**Business risk**	**financial sector dummy**
Earnings per share	1						
Profitability	0.4643*	1					
Financial leverage	-0.1826*	-0.3203*	1				
Business growth rate	0.0051	0.046	-0.1097*	1			
size	0.0035	-0.1674*	-0.0586	0.1295*	1		
Business risk	-0.0476	-0.2923*	0.2276*	-0.0892	-0.3557	1.0000	
financial sector dummy	-0.0296	-0.2347*	0.1921*	-0.0213	0.6868	0.2926*	1

4.2.2 Unit Root Tests

Most economic variables are usually non-stationary in nature and prior to running a regression analysis; unit root tests were thus conducted using the Levin-Lin Chu (LLC) test to establish whether the variables were stationary or non-stationary. The purpose of this is to avoid spurious regression results being obtained by using non-stationary series. Results in Table 5 below indicate that all variables are stationary (i.e. no presence of unit roots) hence there was no need of first differencing.

Table 5 Unit root test

Variable Name	LLC Adjusted t* Statistic	p-Value	Conclusion
Amount of Dividend Paid	-67.3661	0.0000	Stationary
Earnings per share	-9.5596	0.0000	Stationary
Profitability	-3.8192	0.0001	Stationary
Business Growth rate	-28.5326	0.0000	Stationary
Size	-2.2492	0.0122	Stationary
Business Risk	-7.3394	0.0000	Stationary

4.3 Random effects Probit Regression Results

The study used a random effects probit model by integration method to investigate the factors that lead the firm to decide to pay (or not pay) dividends. Table 4.6 shows the results of the random effect probit regression model where the dividend payout decision is censored to zero if there is no dividend paid and 1 if the observation has a payment. The study also established the marginal effects of the probit model as shown in Table 6. The significance of the model was tested using F-statistic prob >chi^2 that was significant as shown by a value of 0.000 meaning that the overall model fits significantly better. Table 6 indicates the marginal effects of the probability of making the decision to pay or not to pay a dividend for changes in the predictor variables. The results show that if EPS increases by 1 unit then the probability of the decision to pay dividends increases by 0.1727 units. A 1 unit increase in financial leverage decreases the probability of the decision to pay dividends by 1.1463 units while a 1unit increase in business risk decreases the likelihood of the decision to pay dividends by 6.3581 units. There is an insignificant positive relationship between the profitability of the firm and decision to pay dividends. The probability of a decision to pay dividends increases with an increase in profitability. There is an insignificant negative relationship between the decision to pay dividends and business growth rate. An increase in business growth rate decreases the probability of the decision to pay dividends. The results also indicated that financial firms have a lower likelihood of making the decision to pay dividends as compared to non-financial firms. This relationship is however not significant.

Table 6 Random effects probit regression model

				Log likelihood	= -109.82208
				Prob > chi2	= 0.0000
Decision to pay	Coefficient	Std. Err.	z	p>|z|	[95% Confidence interval

					Lower	Upper
Earnings per share	.1727566	0.039069	4.42	0.000	0.096183	0.24933
profitability	4.545974	2.333642	1.95	0.051	-0.02788	9.119827
Financial leverage	-1.146386	0.512646	-2.24	0.025	-2.15115	-0.14162
Business growth rate	-.3093828	0.218331	-1.42	0.156	-0.7373	0.118538
size	.0575462	0.067	0.86	0.39	-0.07377	0.188864
Business risk	-6.358113	1.997031	-3.18	0.001	-10.2722	-2.444
financial sector dummy(Financial)	-.3113392	0.707221	-0.44	0.66	-1.69747	1.074787
Constant	.1265223	1.23403	0.1	0.918	-2.29213	2.545177

Table 7 Marginal effect of the Probit Model

	dy/dx	Std. Err.	z	P>|z|	[95% Conf. Interval]	
Earnings per share	0.172757	0.039069	4.42	0	0.096183	0.24933
profitability	4.545974	2.333642	1.95	0.051	-0.02788	9.119827
Financial leverage	-1.14639	0.512646	-2.24	0.025	-2.15115	-0.14162
Business growth rate	-0.30938	0.218331	-1.42	0.156	-0.7373	0.118538
size	0.057546	0.067	0.86	0.39	-0.07377	0.188864
Business risk	-6.35811	1.997031	-3.18	0.001	-10.2722	-2.444
Financial sector dummy(Financial)	-0.31134	0.707221	-0.44	0.66	-1.69747	1.074787

4.4 Random effects Tobit Regression Results

Table 6 indicates the results of Random effects Tobit regression model by integration method used in the study. The significance of the model was tested using F-statistic prob >chi^2 that

was significant as shown by a value of 0.000.This means that the overall model fits significantly better. The results of the random effects Tobit model indicate a positive and significant relationship between EPS and amount of dividend paid (β=0.1665, p-value=0.002).A one unit increase in EPS increases the amount of dividend paid by 0.1665.Likewise, a one unit decrease in EPS decreases the amount of dividend paid by 0.1665.There is also a positive and significant relationship between profitability and amount of dividend paid (β=37.4498, p-value=0.000). A one unit increase in profitability of the firm increases the amount of dividend paid by 37.4498 units. Financial leverage and business risk had a negative and significant relationship with the amount of dividend paid as indicated by β= -9.0938, p-value=0.000 and β= -50.4998, p-value=0.000 respectively. It means that a one unit increase in financial leverage decreases the amount of dividend paid by 9.0938 while a one unit increase in business risk decreases the amount of dividend paid by 50.4998.There was, however, a negatively insignificant relationship between business growth rate and the amount of dividend paid by the firms listed on NSE. The results also indicated that the relationship between size, financial sector dummy and the amount of dividend paid were insignificant (p-value=0.627, p-value=0.847) respectively.

Table 7 Random effects Tobit Regression Results

					Wald chi2(7)	**= 80.15**
					Prob > chi2	**= 0.0000**
Amount of dividend payout	**Coefficient**	**Std. Err.**	**z**	**P>|z|**	**[95% Conf.**	**Interval]**
Earnings per share	0.166517	0.054388	3.06	0.002	0.059918	0.273116
Profitability	37.44989	9.469098	3.95	0.000	18.8908	56.00898
Financial leverage	-9.0938	2.447309	-3.72	0.000	-13.8904	-4.29716
Business growth rate	-2.00611	1.028764	-1.95	0.051	-4.02245	0.010232
Size	0.155309	0.319369	0.49	0.627	-0.47064	0.78126
Business risk	-50.4999	12.33454	-4.09	0.000	-74.6751	-26.3246
Financial sector dummy	0.664467	3.435609	0.19	0.847	-6.0692	7.398136
Constant	14.9895	6.190543	2.42	0.015	2.856258	27.12274

5.0 CONCLUSIONSAND RECOMMENDATIONS

5.1 Conclusions

The purpose of the study was to investigate the factors influencing dividend payout decision of financial and non-financial companies listed at Nairobi securities exchange consistently since 2003 to 2012.The study sought to investigate the factors influencing both the amount of

dividend paid and the decision to pay. The study used random effects Tobit model to find out the relationship between predictor and dependent variable.

Based on the findings, the study concluded that EPS, financial leverage and business risk play a key role in making the decision to pay or not to pay dividends. Earnings per share influences the decision to pay positively while both financial leverage and business risk influences the decision to pay dividends negatively.

The study also concluded that EPS and profitability plays a key role in positively determining the amount of dividend to pay while financial leverage and business risk plays a key role in negatively determining the amount to pay.

The findings also indicated that business growth rate and financial sector have an insignificant relationship with the amount of dividend paid.

5.2 Recommendations

The study has revealed the factors that influence dividend payout decisions of financial and non-financial firms listed on the NSE. The findings of the study are vital to both current and potential investors as they have information regarding which factors they should consider while projecting future dividends. The study recommends that investors who are trying to predict future dividends should, therefore, know which factors to look for when predicting future dividends. The study also suggests that managers may also use the study findings when making the dividend payout policies since they will be given useful information regarding which factors they may consider when determining the dividend payouts.

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