FINANCIAL DETERMINANTS OF DIVIDEND POLICY PAYOUT AMONG

COMMERCIAL BANKS IN KENYA

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DECLARATION

I declare that this research thesis is my original work and that it has not been presented in any other university. This thesis should not be submitted to any other examination body without my consent and that of Kenya Methodist University.

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Declaration by the supervisors

This thesis has been submitted for examination with our approval as university supervisors.

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DEDICATION

I dedicate this thesis to my family for their understanding and support during the study period.

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ABBREVIATIONS AND ACRONYMS

CBK: Central Bank of Kenya

CRBs: Credit Reference Bureaus

EBIT: Earnings Before Interest and Tax

EPS: Earnings Per Share

FMBs: Microfinance Banks

GCC: Gulf Co-operation Council

MRPs: Money Remittance Providers

NACOSTI: National Commission for Science Technology and Innovation

NSE: Nairobi Security Exchange

ROA: Return on Asset

ROE: Return on Equity

SPSS: Statistical Package for Social Sciences

SSA: Sub-Saharan Africa

UAE: United Arab Emirates

UK: United Kingdom

US: United States

ABSTRACT

Dividend payout policy for commercial banks differ as each company decides on what, how and when to pay dividend to its shareholders. Some banks pay higher and other pay less dividend despite the fact that they operate under same business environment. The questions how do the commercial banks set their dividend and why do banks pay dividend, impose the problem in dividend payout in Kenyan context. These reveal that there is no unified picture regarding dividend payout policy and therefore remain one of the most contested disputes within the field of corporate finance. The general aim of the study was to investigate the financial determinants of dividend payout policy among commercial banks in Kenya. Specifically, the study sought to achieve the following objectives: To establish the influence of levels of profits on dividend payout policy among commercial banks in Kenya; To establish the influence of liquidity on dividend payout policy among commercial banks in Kenya; To establish the influence of bank size on dividend payout policy among commercial banks in Kenya and lastly to establish the influence of leverage on dividend payout policy among commercial banks in Kenya. This study used descriptive research design. The researcher targeted all the 42 commercial banks in Kenya. Secondary quantitative data was collected using secondary data collection sheet. The data was analyzed by descriptive and inferential analysis that involved multiple linear regression and correlation analysis. The results indicated that levels of profits had significant influence on dividend payout policy of commercial banks in Kenya ($p\text{-value} < 0.05$), liquidity had significant influence on dividend payout policy of commercial banks in Kenya ($p\text{-value} < 0.05$), bank size had significant influence on dividend payout policy of commercial banks in Kenya ($p\text{-value} < 0.05$) and leverage has no significant influence on dividend payout policy of commercial banks in Kenya ($p\text{-value} < 0.05$). The study recommended that banks should work towards improving their profit levels to facilitate dividend payout policy. The study in addition recommended that, bank managers should ensure they are able to fulfill both expected and unexpected demands of cash on an ongoing basis. Further the study recommended that bank managers should work towards the growth of the banks, when a firm becomes larger, and its operational activities are more efficient.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Dividend Policy refers to the explicit or implicit decision of the Board of Directors regarding the amount of residual earnings (past or present) that should be distributed to the shareholders of the corporation (Manon, Suzanne, & Anne, 2015). It is the practice that management follows in making dividend payout decisions or, in other words, the size and pattern of cash distributions over time to shareholders (Kent, Shantanu & Samir, 2013). This decision is considered one of the vital financing decisions because the profit of the corporation is an important source of financing available to the firm.

Dividend policy is one of the most debated topics and a core theory of corporate finance which still keeps its prominent place. More than three decades ago Subba, (2015) described it as a puzzle, and since then an enormous amount of research has occurred trying to solve the dividend puzzle. Kent et al., (2013) summarized the current consensus view when they concluded that although a number of theories have been put forward in the literature to explain their pervasive presence, dividends remain one of the thorniest puzzles in corporate finance.

The issue of dividend has attracted the attention of academicians and researchers. Also Manon et al., (2015, page 22) stated that *"The harder we look at the dividend picture, the more it seems like a puzzle, with pieces that don't fit together".* It is among of top ten unresolved problems in the finance literature and we have not an adequate explanation for the observed dividend behavior of the firms Brian (2016), Joshua and Vera, (2013). Dividend payout policy plays an important major role to banking companies' decision making. Parallel with other decisions,

Management should consider dividend policy decisions because if a firm decides to pay more dividends, it retains fewer funds for investment purposes, and the company may be forced to revert to capital markets to gain funds (Sébastien & Aymen, 2016).

In developed economies, the decision whether paying dividends or keep as retained earnings has been taken very carefully by both investors and the management of the firm (Laurence & Jun, 2015). Many studies such as Al-Najjar (2016); Gizelle, Marcus, Allen and Shelton (2013) have conducted studies regarding the dividend policy has been done and provided empirical evidence regarding the determinants of dividend policy. Yet, there is no indisputable explanation on what factors influence the dividend policy. The question of why firms pay dividends from their earnings still remains unexplained. This is known as the dividend puzzle in finance literature (Hussein, Shamsabadi & Richard, 2016). Many hypotheses have been drawn to shed some light on this puzzle but the problem still exists.

Ever since the work of Choi and Doowon (2014) followed by the work of Miller and Modigliani cited in Febriela, and Sylvia (2014), dividend policy remains a controversial issue. Some of the questions that remain unanswered include; what are the factors that determine dividend policy? Is dividend policy determined dependently or independently? Among a number of researchers, Febriela, and Sylvia (2014), Vivek, and Xiaorong, (2012) found dividend payout are the function of firm's profitability, while Ali, Al-attar, Husni Al-Shattarat, Aziz and Yusuf (2015) found Liquidity to be noteworthy determinants.

In the real world to determine the appropriate payout policy it is often a difficult task of balancing many conflicting forces. The important elements are not difficult to identify but the interactions between those elements are complex and no easy answer exists. And because of that Chintal, Desai and Nguyen (2015) drew the following conclusion; Much more empirical and

theoretical research on the subject of dividends is required before a consensus can be reached. Researchers have primarily focused on developed markets; however, additional insight into the dividend policy debate can be gained by an examination of developing countries, like Kenya which is currently lacking in the literature and no any a single study has be established to solve dividend puzzle in Kenya. This study seeks to find out determinants of dividends payout policy among banks in Kenya and to check if the possible determinants identified in the theoretical and empirical literature hold in the determinants of Dividend Payout are more puzzling as well as serve as a guide to directors of commercial banks when fixing dividends.

Samuel, Benjamin, Mat, Effiezal and Abdul (2016) was the first who used Lintner's model in an emerging country. He investigated the dividend behavior in the Indian market from 1949 to 1981. He concluded that Lintner's model explained the dividend behaviors in the Indian environment. Furthermore, Indian firms believe that they should pay dividends even if their profit level is low and even if they have to go for external financing (borrowing). John and Greg (2016) investigated the dividends behavior of firms listed on the Kuala Lumpur Stock Exchange (now known as Bursa Malaysia). They found that firms' dividend decisions partially depended on their current profits and past dividends. They also found that firms have long-term target dividends, which is conditioned upon their earnings ability.

Chia, Tsung, Chen and Hsing (2013) examined the dividend policy of a sample of companies from eight emerging markets, and compared them to a sample of 99 US companies. They found that emerging firms displayed dividend behaviors similar to US firms, in the sense that dividends are explained by profitability, debt, and the market-to-book ratio. However, the sensitivity to these variables varies across countries. Biswajit and Kailash (2015) examined the dividend policy of Omani firms in the financial and non-financial sectors between 1989 and 2004. The

results suggested that profitability, size, and business risk affect the dividend policy of both financial and non-financial firms. However, government ownership, leverage, and age had a strong influence on the dividend policy of non-financial firms with no effect on financial firms. On the other hand, agency costs, tangibility, and growth factors did not appear to have any significant impact on the dividend policy of both financial and non-financial firms.

Al-Malkawi (2017) examined the determinants of corporate dividend policy in Jordan using a firm-level panel data set of all publicly traded firms on the Amman Stock Exchange between 1989 and 2000. Using Tobit specifications, the results suggested that the firm's age, size, and profitability positively and significantly affected its dividend policy, while leverage negatively affected the dividend policy. Vivek and Xiaorong (2012) conducted a research on the dividend policy of 300 firms listed on the Kuala Lumpur stock exchange. The results showed that there were no significant associations between the dividend payout ratios and Vivek and Xiaorong (2012) used a panel dataset of nonfinancial firms listed on Gulf Co-operation Council (GCC) countries between 1999 and 2003. Using a series of random effect Tobit models, the results suggested that the dividend policy was strongly and directly related to the government ownership, firm size and firm profitability, but negatively to the leverage ratio. He concluded that firms pay dividends with the objective of reducing the agency problem and maintaining firms' reputation.

Nopphon (2013) undertook a research on the determinants and trends of dividends in 607 listed Indian companies from 1993 to 2005. They found that past, current and expected future profits had significant positive role in determining the dividend payout ratio. Evidence showed that the cash balance and cash flow had significant negative relationship with the dividend rate. Factors like Interest expense, capital expenditure, tax ratio and share price had almost no role on the

dividend payment. Richard, DeFusco and Dunham (2014) empirically investigated the factors affecting the dividend payout decisions of Pakistan engineering sector using the data of 36 listed firms during 1996–2008. Using various panel data techniques, he found that the dividend payout was positively affected by last year's dividend, earning per share, profitability, sales growth and the size of the firm, whereas it was negatively affected by the cash flow.

Nopphon (2013) conducted a study on the determinants of dividend payout ratios in Ghana during a six-year period. Using an Ordinary Least Squares model, the results showed positive relationships between dividend payout ratios and profitability, cash flow, and tax. The results also showed negative associations between dividend payout and risk, institutional holding, growth and market-to-book value. However, the significant variables in the results were only profitability, cash flow, sales growth and market-to-book value.

Reza, Chowdhury and Jenny (2014) analyzed the determinants of the dividend Payout policy of firms from Nigerian Securities and Exchange Commission. They found that profitability negatively affected the payout ratio whereas liquidity and previous year's dividend exerted a positive impact on the payout ratio. Therefore, they concluded that these three factors (profit, liquidity and previous year's dividends) were good predictors of the dividend payout policy in Nigeria. Nan, Huang and Li (2017) aimed to study the dividend decisions of a sample of 14 Tanzanians listed firms during 1990–2006. They found that Saudi firms had more flexible dividend policies since they were willing to cut or skip dividends when profit declines and pay no dividends when losses were reported. Lagged dividend payments, profitability and cash flows were found to be determinants of dividend payments.

Hyang, Choi, Sul and Kee (2014) undertook an empirical study on the determinants of dividend payout of six private banks in Ethiopia during 2006 to 2010. By using Lintner's model, the study concluded that there was a positive relationship between the firm size and the dividend payout ratio, a negative relationship between liquidity and the dividend payout. However, there was no relationship between payout ratio and profitability, growth and leverage. He concluded that banks in Ethiopia considered agency conflicts, previous year's dividend and liquidity when making decisions to pay dividends. Nopphon (2013) carried out the same study on sixteen banks in Ghana covering a five year period (1999–2003). The results showed that profitability, leverage, changes in dividends and collateral capacity had a positive significant impact on the dividend policies of banks in Ghana. On the other hand, they found that growth and firm maturity had a negative significant influence on the dividend payout. However, the cash flow had a negative, but insignificant relationship with the dividend policy.

In Kenya there are a total of 42 commercial banks; 1 mortgage finance company, 12 microfinance banks. All banks are regulated by the Central Bank of Kenya. Of the 42 commercial banks 11 are listed at the NSE (Nairobi Security Exchange). They are Barclays Bank of Kenya, CFC Stanbic Holdings, Diamond Trust Bank, Equity Group Holdings, Housing Finance Company of Kenya, I&M Holdings Limited, National Industrial Credit Bank, National Bank of Kenya, Standard Chartered of Kenya, Cooperative Bank of Kenya and Kenya Commercial Bank Group.

According to Kenya Gazette Legal Notice No.60 2002, among the requirements that companies want to be listed in the Nairobi Security Exchange must fulfill is that, they should have a clear future dividend policy. This makes dividend policy worthy of serious management attention. The Banking Act requires commercial banks to pay dividends on their shares or make any form of

distribution to their shareholders after all capitalized expenditure has been written off. Currently, stiff competition in the banking industry is forcing a change of policy on dividend payout, with most institutions preferring to hold on to their earnings to build a war chest for growth. Past financial results by banks have seen most big players reduce dividend payouts to shareholders. Some of the banks that have cut their dividend payout include; Kenya Commercial Bank (KCB), Equity Bank, Barclays Bank of Kenya and National Bank.

This is because banks need to meet other capital adequacy ratios in order to finance their future commitments instead of always having to go to the market to borrow funds. Dividend payout ratio computes the portion of income after tax that is issued to shareholders as dividends. This ratio signifies the percentage of net profits the organization decides to retain to finance operations and the percentage of net profits which is distributed to its shareholders (Todd, Ronald & Hill, 2013). Dividend payout is the percentage of earnings paid to shareholders in dividends. It is the ratio of annual dividend per share to earnings per share of the firm. The proportion of profits distributed is measured by the payout ratio which is cash dividend divided by profits per share. From this point of view, it can be hypothesized that profits and dividend payout have positive linear relationship. Empirical findings have shown that profitability and liquidity are significant determinants of dividends. Owing to the findings that dividend policy decisions have information content, can affect firm value and in turn or directly affect the wealth of shareholders, the dividend policy is worthy every attention by senior management Board.

Locally, a number of researches have been conducted to establish the determinants of dividend payout for agricultural firms listed at the NSE. Nadine and Hannah (2012) looked at factors that determine dividend policies in Kenya and observed that cash and liquidity, current and prospective profitability and company's level of distributable resources determine dividend

policy. Masayoshi and Trevor (2012) studied the determinants of dividend policy at the Nairobi Securities Exchange. The study concluded that company growth and inflation influenced the dividend payout ratio. Dafna, DiSegni, & Huly (2015) carried out a study on determinants of dividend payout and observed that current and expected future profits, cash flow position, and financial needs of the company and availability of profitable investment as factors that affect dividend policy. Zhi (2012) analyzed the factors influencing dividend policy of publicly listed companies at the Nairobi Securities Exchange and found out that earnings were significantly positively associated with dividend payout for companies involved in the study. This study will specifically focus on commercial banks in Kenya.

1.1.1 Banking Industry

The banking industry plays an essential role in the economy in terms of resource mobilization and allocation and, is by far, the most important part of the financial system in developing economies, accounting for the bulk of the financial transactions and assets (Manon et al., 2015). In the past two decades, banking markets have been subjected to structural changes caused by modifications in the external environment especially as a consequence of the increasing monetary and financial integration (Njuguna, 2014). The gradual liberalization of capital flows, rapid pace of developments in information technology, product/service innovation in financial markets, the internationalization of banking activities, phenomenon of disintermediation and the concern for the competitive pressure from foreign rivals are undoubtedly some of the prominent structural features of the banking sector. These forces have altered banking behavior and market structure with vast implications for competition and concentration: the enhanced competition has forced banks to look for a bigger size as well as better managerial capacity in order to improve their overall efficiency.

1.1.2 Global Perspective of the Banking industry

Results for bank concentration, which the World Bank calculates by taking the fraction of assets held by the three largest banks in each country and which to a large extent indicates the level competitiveness of a country's banking sector, show that in 2014 among the G7 economies, the US banking sector remained the most competitive at a market concentration of 35.41% while Germany was the least competitive at 78.07%. Japan, the UK, Canada, France and Italy come in the second to sixth positions with bank concentrations of 43.9%, 57.43%, 62.68% and 63.11% respectively. A simple interpretation of this pattern of concentration would be that some countries have a more competitive banking market structure than others, and that the trend may have caused general decline in competition. Market concentration evolves in relation to changes in competitive conditions, and tougher competition may be driving out weaker banks (those that are less attractive to customers) with the result that concentrated markets would be associated with tough competition.

1.1.3 Regional Perspective of the Banking Industry

African banking sectors have witnessed significant reforms over the last three decades following a long period of underperformance. These reforms have led to significant growth in the number of banks in many African countries, a noticeable increase in the degree of cross-border and a significant growth in the number of small banks with relatively less capital base, which has attracted recapitalization programmes (such as Ghana, Sierra Leone and Nigeria) in order to address any possible threat to financial stability (Asad & Yousaf, 2014). Over the same period, the sub-regional average of the ratio of equity to total assets was as high as approximately 15% in Southern and West Africa and 16% in North and East Africa notes that banks in African sub-regional markets can be characterized as monopolistically competitive. With the exception of

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North Africa, African banks exhibit higher competition at interest-generating activities compared to total banking activities. The degree of competition in African banking markets is comparable to that existing in other emerging markets, but generally well below the standards of developed countries, with five-bank concentration ratio stands of 77.29% for the whole African region. As argued by Brian (2016), fierce competition may drive out of the market the less efficient banks, with a resultant increase in banking market concentration.

Many Sub-Saharan Africa (SSA) countries have liberalized their financial systems over the past three decades, restructuring a majority of the state-owned commercial banks, thereby creating conducive environment for increased foreign bank entry and allowing acquisition of foreign assets by domestic financial firms. Available evidence suggests that in developing countries with transparent financial regimes where financial sector reforms have been implemented, competition in the banking industry has generally improved compared to countries characterized by less transparent financial sector regimes (Njuguna, 2014). In the East African countries, studies have shown that financial sector reforms stimulated competitive pressures in the banking industry. The results are robust to entry of foreign banks and bank privatization (Mwaura, Yaanga & Ruto, 2018). However, this evidence is not uniform. Other studies have reported limited effects of reforms on competition (Léon, 2016) with liberalization in some cases leading to financial crises.

1.1.4 Local Perspective of the Banking industry

In Kenya, Bank Supervision Report shows that as at 31st December 2014, the banking sector comprised of the Central Bank of Kenya as the regulatory authority, 44 banking institutions, 8 representative offices of foreign banks, 9 Microfinance Banks (MFBs), 2 Credit Reference Bureaus (CRBs), 13 Money Remittance Providers (MRPs) and 87 Foreign Exchange (Forex)

Bureaus (Central Bank of Kenya (CBK) [CBK], 2014). Out of the 44 banking institutions, 30 were locally owned banks comprised 3 with public shareholding and 27 privately owned while 14 were foreign owned. The 9 MFBs, 2 CRBs, 13 MRPs and 87 Forex bureaus are all privately owned.

Kenyan commercial banks are classified into three groups using a weighted composite index that comprises net assets, customer deposits, capital and reserves, number of deposit accounts and number of loan accounts. A bank with a weighted composite index of 5 per cent and above is classified as a large bank. A medium bank has a weighted composite index of between 1 per cent and 5 per cent while a small bank has a weighted composite index of less than 1 per cent. For the period ended 31st December 2014, there were 6 large banks with a market share of 49.9 per cent, 16 medium banks with a market share of 41.7 per cent and 21 small banks with a market share of 8.4 per cent. There were shifts in market share positions for the banks in the three peer groups; the combined market share of banks in large peer group declined from 52.4 per cent in December 2013 to 49.9 per cent in December 2014. Banks in medium peer group increased their combined market share from 37.95 per cent in December 2013 to 41.7 per cent in December 2014. The market share of banks in small peer group declined from 9.66 per cent in December 2013 to 8.4 per cent in December 2014 (CBK, 2014).

In 2014 two banks shifted in their classifications from their 2013 classifications. Commercial Bank of Africa moved to the large peer group from the medium peer group while CFC Stanbic Bank moved to the medium peer group from the large peer group. Similarly, some banks changed positions within their respective peer groups; In the large peer group, Equity Bank moved to position 3 in 2014 from position 2 in 2013; Co- operative Bank of Kenya moved to position 2 from position 3 in December 2013; Barclays Bank moved to position 4 from position

5 in December 2013; while Standard Chartered Bank, which was ranked position 4 in December 2013 moved to position 5 in December 2014.

1.2 Statement of the Problem

Dividend payout policy for Banks differ as each company decides on what, how and when to pay dividend to its shareholders. Some banks pay higher and other pay less dividend despite the fact that they operate under same business environment (Kamau, 2017). The questions how do the commercial banks set their dividend and why do banks pay dividend, impose the problem in dividend payout in Kenyan context. These reveal that there is no unified picture regarding dividend payout policy and therefore remain one of the most contested disputes within the field of corporate finance. This also could be justified in line with the fact that there are so many factors influencing dividend policy and no any law subject a company to pay a certain percent of its net profit after tax as a dividend to its shareholder.

In his study Abuzar, Eljelly and Abdelgadir (2013), concluded that dividend policy remains a puzzle. Farooq and Nielsen (2014) argued that even if numerous researchers have attempted to solve the "dividend puzzle" identified in (Jean, Deudon & Marques, 2015), the studies are yet to arrive at an unequivocal solution. Additionally, in reference to prior studies on dividend policy, a majority were carried out in developed countries, emerging markets, Europe, Asia Africa (Feras & Salama, 2015; Wejendra, David, & Ron, 2014). Local studies focused on listed agricultural firms (SPYRIDON, (2015) and all listed firms at NSE (Manon et al., 2015). From the reviewed studies, it is evident that there exist limited studies focusing on listed firms in the banking sector in Kenyan context. It is against this background this study embarks to fill the existing contextual and conceptual gaps by seeking to establish the determinants of dividend payout policy among commercial banks in Kenya.

1.3 Objectives of the Study

1.3.1 General Objective

The general objective of the study was to investigate the financial determinants of dividend payout policy among commercial banks in Kenya.

1.3.2 Specific Objectives

The study was guided by the following objectives:

i. To establish the influence of levels of profits on dividend payout policy among commercial banks in Kenya

ii. To investigate the influence of liquidity on dividend payout policy among commercial banks in Kenya

iii. To examine the influence of bank size on dividend payout policy among commercial banks in Kenya

iv. To establish the influence of leverage on dividend payout policy among commercial banks in Kenya

1.4 Research Hypotheses

The study tested the following hypotheses:

H_{01}: Levels of profits have no significant influence on dividend payout policy of commercial banks in Kenya.

H_{02}: Liquidity has no significant influence on dividend payout policy of commercial banks in Kenya.

H$_{03}$: Bank size has no significant influence on dividend payout policy of commercial banks in Kenya.

H$_{04}$: Leverage has no significant influence on dividend payout policy of commercial banks in Kenya.

1.5 Significance of the Study

The outcome of this study will be invaluable to the following groups:

1.5.1 Shareholders

This study is important to the shareholders of the Commercial banks in Kenya, for the study will make plain to them what drive Commercial banks into paying dividends. This will enlighten the shareholders view and make them understand why at times they cannot receive dividend and when they receive high dividends.

1.5.2 The Management

The research will also be valuable to the management of Banks, for the study will highlight why dividends should be paid and the determinants behind it. As so the management will know when to pay and when not to.

1.5.3 Academicians

The study will be of importance to the academicians for the study will form a good base upon which further research will be based and empirical and secondary materials got. Government agencies and policy makers may use the results to formulate positive national policies on a framework that is relevant and sensitive to the forces influencing Commercial banks in Kenya.

1.6 Scope of the Study

This study was restricted to all 42 commercial banks operating in Kenya and collected secondary data from NSE and CBK. The study used secondary data collection sheet. The study was conducted between April and August 2019.

1.7 Limitations of the Study

Despite the fact that the researcher made efforts to collect correct information, it is possible that the annual report relied on could contain inaccurate data. However, the annual reports, could be relied because they had been examined by independent external auditors. The study covered only five financial years ranging between 2013 and 2017. This period is not sufficient to study how various factors evolved over time, and what significance such changes would have on dividend policy payout. The study concerned commercial banks operating in Kenya only. The findings therefore cannot be generalized to other jurisdictions since each country has its own characteristics and circumstances. The study mitigated the challenges by using panel data so as to increase the number of observations.

1.8 Assumptions of the Study

In the study the following assumption were made: The study variables namely levels of profits, liquidity, bank size and leverage determine dividend payout policy.

1.9 Operational Definition of Terms

The study is based on the following basic terms as defined.

Dividend Policy	Kent et al., (2013) define dividend policy as the regulations and guidelines that a company uses to decide to make dividend payments to shareholders.
Leverage	The use of various financial instruments or borrowed capital, such as margin, to increase the potential return of an investment (Subba & 2015).
Liquidity	Is the available cash for the near future, after taking into account the financial obligations corresponding to that period (Brian, 2016).
Profitability	Is a measure of dividend payout among profit making firms.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews empirical studies that have been undertaken in relation to study objectives and an effort to evaluate contributions made. In addition, a review of various theories that inform the study has been made. The conceptual framework is explained using a concept map that captures the key variables and linkages and relationships amongst variables.

2.2 Empirical Review

2.2.1 Levels of Profits and Dividend Payout Policy

Previous researchers have found profitability as one of the most important determinants of dividend payout policy. The results on relationship of profitability and dividend payout have been mixed. As per the pecking order theory, Hussein et al., (2016) have maintained that the profitability is highly negative and significantly associated with the dividend payout, which shows that the firms invest in their assets rather than paying dividends to shareholders. Choi and Doowon (2014) have found that the higher the return on equity, the greater is the firms retained earnings for reinvestment or the lower is the dividend payout. Contrary to it, there are many.

Febriela and Sylvia (2014) have maintained that firms are more likely to raise their dividends if they are large and profitable. Their studies proved that the profitability is positively related to the dividend payout ratio. Profitable firms with more stable net earnings can afford larger free cash flows and therefore pay larger dividends. Vivek and Xiaorong (2012) found out that the firm profitability ratio appeared to be a very strong and statistically significant determinant of the dividend payout ratio in GCC countries. The slope coefficient of this variable was 2.89,

suggesting that a 1-unit increase in firm profitability would increase 2.89 units in dividend payout ratio (ceteris paribus). In addition, the elasticity of the dividend payout ratio, with respect to firm profitability found that 10% increase in firm profitability would lead to an increase of about 5.8% in the dividend payout ratio. This is consistent with the observation that firms normally pay a higher dividend ratio when there is a rise in firm profitability.

Hussein et al., (2016) studied UAE Companies for the years 2005 to 2009 and concluded that the profitability of the firms as measured by ROE has negative relationship with dividend payout, which indicates that the more profitable firms pay less dividends. Profitability measured by ROA and EPS are negatively associated with the dividend payout ratio but the results are not statistically significant. Febriela and Sylvia (2014) studied firms on Saudi Arabia stock exchanges the findings showed that earnings per share was significant and had positive relationship with dividends per share. So when firms increase their profitability then dividends per share increase. Hussein et al., (2016) in their research on a worthy factors affecting dividends policy decisions An empirical study on industrial corporations listed in Amman Stock exchange found that profitability shown by earnings per share (EPS) has the highest effect on dividends and it was significant. John and Greg (2016) researched on determinants of dividend payout policy: Evidence from Bangladesh the results showed that EPS was negatively significant to dividend payout policy. While EPS is a great way to compare earnings across firms, but it did not provide anything about how the market values the stock. Thus, the fundamental analysis use the P/E ratio to figure out how much the market was willing to pay for a firm's earnings. It was assumed that firm's EPS is high will be lower dividend payout ratio and therefore, will have negative sign as determined from the estimation. Thus, the higher the payout ratio, the less

confidence the company has that it would have been able to find better uses for the money it earned.

The origin of the early discussions on Dividend Payout literature was given credit to a researcher by the name of John despite various theories being put under scrutiny to try and explain the determinants of dividend policy. His discovery was that decisions regarding issuing of dividends were primarily dependent on an organization's profitability and dividend payment from the prior year. As a result, there have been continuous discussions on the dividend policies which result in conflicting and indecisive results (Farsio, 2008).

Kapoor, Anil & Misra (2010) researched using Earnings before Interest and Tax (EBIT) divided by Total Assets to measure profit. Return on Equity or (ROE) is another method known in measuring profit (Al-Shubiri, 2011). Al-Shubiri (2011) asserts ROE as being among the best measurements when explaining the

profits of a company as it will reveal the firm's capacity in generating cash internally. Benartzi, Michaely and Thaler, (2007) was of the opinion that payment pattern in a firm is affected by current year's earning. Dividend payout ratio is determined by the expected future profits of a firm. Aivazian, Booth and Cleary (2013) commented that the main factor for paying dividend was profit after tax. Lie (2005) emphasized that profitability was a vital component of dividend payout and gave evidence that more profitable firms and highly liquid firms have greater chances of paying dividends.

Velnampy and Nimalathasan (2008) explored financial markets in Kuala Lumpur and determined the dividends movements of companies that are major players in the market. They figured out that the company's decision making with respect to dividend was significantly

related to profits generated in the current financial period and dividends that were issued in prior periods. Moreover, they came to the conclusion that organizations have future long term projections concerning dividends that significantly relies on the company's ability to predict its earnings. Researchers Aivazian et al., (2013) attempted to perform an analysis on the movements and changes in dividend issuance on various firms from developing and third world countries and compared them to developed countries mostly in United States and Europe. Coincidentally they established that firms in developing and third world countries exhibited dividend behaviors which are parallel to the behaviors of firms in the developed countries. Gupta and Walker (2011) steered an investigation on the behaviors and determinants of dividends in financial institutions which are listed companies in India securities exchange. They illustrated that earnings generated in previous periods, earnings expected to be generated in the current period and earnings projected in future periods had a positive impact in determining dividend policy to be incorporated by management in an organization. (Gupta & Walker, 2011). Further evidence pointed out that cash balances and future cash flows had quite a significant negative relationship compared to dividend payment. Macroeconomic factors such as tax regime, inflation rates, tax regime and share prices of listed securities did not have a significant positive impact in issuing dividends by corporations.

Velnampy and Nimalathasan (2008) researched on the link between growth in an organization and profitability of banks in Sri Lanka over a given period of 10 years starting from 1997 to 2006. They noted that, sales in the companies are positively related with profitability ratios apart from operating profit. Return on equity (ROE) and number of depositors in the banks are also positively correlated to profitability ratios. Rozeff (2012) discovered that performance of a company is affected by dividend policy especially the profitability ratios as measured by the

return on the assets. This clearly demonstrated that when a company has a dividend policy, it tends to influence profitability (Rozeff, 2012). Holder, Langrehr and Hexter (2008) were of the view that positive or negative fluctuations in dividends are in tandem with positive or negative projected changes in earnings per share (EPS) of a company having an impact on profitability. Zakaria and Tan (2007) emphasized that investments that are made by various firms influences the potential of future earnings and dividends.

Increase in dividend are directly related to anticipated future increases in profits in each of the subsequent two years after the change in dividend. Sharma (2011) noted that an increase in payment of dividend will signal confidence in management regarding future earnings that will be strong enough so as to support higher payment of dividend. Pandey (2008) tested a time series relationship between dividend payout ratio and earnings that is in line with the idea that firms that pay dividends raise their dividend in the event management is to a greater extent confident that their huge payments can be sustained.

Amidu (2007) found out that decisions concerning dividend payout of firms that are listed in Ghana Stock Exchange are significantly influenced by cash flow position, profitability, growth and investment opportunities to be undertaken by the firms. Profits have for a long time been considered as the primary determinant of a firm's potential to pay dividends. Kim and Gu (2009) noted out that current year's and past years' profits are crucial factors in determining dividend payments. Al-Kuwari (2009) came to the conclusion that issuing of dividends had a linear relationship with earnings that are generated by a company.

Ho (2006) carried out a research on the factors that affect dividend policies in Australia during a five-year period with the findings depicting a significant direct pattern between payment of dividend and cash flows generated that lead to profits and government taxes. From a different

point of view, the findings depicted that a significant adverse pattern is portrayed between payment of dividend and indicators of company growth and risk tolerance levels set by management (Ho, 2006). Aivazian et al (2013) conducted a conclusive and comprehensive investigation in the issuance of dividends in corporations comprising banking and manufacturing sectors in Northern America. The outcome of their investigation pointed out that business growth, capital structure and future earnings impacted dividend payment of both financial and manufacturing sectors. Shareholding by the government in an organization, age and debt levels had a substantial influence on distribution of dividends in other sectors other than financial and manufacturing (Aivazian et al., 2013). To some extent, Annuar and Shamsher (2009) established that costs incurred by shareholders to monitor and supervise performance of management and growth in earnings tend to have a lesser role on distribution of dividend of organizations in different sectors in developed countries.

Brav, Graham, Harvey & Michaely (2012) carried out an inquiry to determine the factors that influence dividend payout ratio. The results of the investigation indicated that having consistent earnings over a considerable period of time and disseminating information to shareholders were among factors that had an influence on dividend while investment and growth opportunities, external financing borrowing and systematic risk had minimal significant influence on dividend payout. Truong and Heaney (2007) investigated the impact of very limited investment opportunity and high profitability on dividend payout and discovered that it was highly probable to pay dividends when profits are so high with investment opportunities that are limited. Mercado and Willey (2005) researched on the effect of investment opportunity, profitability, size, life cycle and agency problem on dividend payout ratio by using logit regression. Their

findings of the study showed that life cycle, agency contraction, firm size, profitability and growth opportunity had a positive influence on dividend payout ratio (Mercado & Willey, 2005).

2.2.2 Liquidity and Dividend Payout Policy

Nan et al., (2017) assert that liquidity position is an important determinant of dividend payouts. Firms with more liquidity are likely to pay dividends as compared to the firms that have liquidity problems. Payments of dividend depend more on cash flows which reflect the company's ability to pay dividends. A poor liquidity position means less dividend due to shortage of cash. Todd et al., (2013) in his study of UAE firms do not support the relevance of liquidity as a most important consideration of dividend policy, and finds that is insignificant in influencing the dividend payout decision.

Nadine and Hannah (2012) in their study dynamics and determinants of dividend policy in Pakistan evidence from Karachi stock exchange for non-financial listed firms. The market liquidity of the firms has a positive influence which confirms that firms with higher market liquidity pay more dividends. The size is the highly negative and significant which shows that the large-sized firms invest in their assets rather than paying dividends to its shareholder.

Liquidity enables companies to withstand harsh economic times by holding a mix of liquid investments. Thus working capital management assists senior managers to have guaranteed liquidity levels as well as investment channels where idle resources may be temporarily invested. Kim and Gu (2009) demonstrated that liquidity for the firm that is on-going does not rely on the liquidation value of its assets, but rather on the operating cash flows generated by those assets and therefore working capital management should be given adequate considerations such that maturing current obligations are honored promptly.

Liquidity is considered to be a vital factor when it comes to policies regarding dividend distribution and planning. In financial terms and for this research in particular it can be measured by dividing current assets divided by current liabilities of the local banks (Jensen, 2007). Firms that have easier access to capital markets have a higher chance of distributing dividends to their shareholders than firms that are restricted in accessing capital (Ho, 2006). In mentioning cash flow management, Marfo and Agyei (2011) clearly portrayed that corporations which have stability in cash flows have a greater chance of issuing dividends to shareholders both ordinary and preference which is a return to their investment. Payment of dividends mostly attracts investors who are not keen in taking risks (Marfo & Agyei, 2011).

Distribution of dividends not only depends on the profitability of a firm but also depends on the working capital that is the amount of operating cash flow which remains after payment for current obligations (Alli, 2007). According to Annuar and Shamsher (2009), if the cash dividend is less than the free cash flow, it suggests that the firm has residual cash, if the cash dividend is greater than the free cash flow then it suggests the firm needs financing to meet the requirement of cash dividends. Amidu (2007) demonstrated that cash flows generated by an organization directly impacts on distribution of dividends in many organizations in various sectors.

Pruitt and Gitman (2013) claimed that firms which pay dividends do so on the basis of cash flows that are generated which to some extent implies that the firm is capable of issuing dividends. They however claim that profits is not a good indicator of a firm's ability to issue dividends since it is subject to accounting practices that includes items which do not involve movement in cash, for example, depreciation. Bhunia (2010) explains that a company must consider its liquidity before paying dividends and should dispel the idea that a company with high profits can be able to pay high dividends. He argued that profits and cash are not the same

and therefore the amount of dividends that will be paid must reflect not just the operating profits but its ability to pay dividends.

Rozeff (2012) emphasized that taking cash flow position into consideration is significant to both financial and investment managers since it is closely associated to continuous operations management in an organization. Pandey (2008) in their analysis of the determinants of dividend payout ratio by companies in terms of market capitalization, listed on the Malaysian securities market, showed that firms paid out on average, about forty percent of their earnings after tax as dividends and observed that, there was a strong relationship between liquidity and dividend payout.

Liquidity management involves elimination of default risk on obligations as and when they fall due and balancing between liabilities and short term assets (Abuzar, 2013). Liquidity management positions are used by investors to gauge a company's performance before channeling their funds. They are used to give an indication as to whether a company is in a position to meet its obligations in the short run. If not the company may be forced to source for funds elsewhere in order to remain operational.

Liquidity dividends can be explained in terms of finances that go into settling dividends to investors in the interim basis. A company's liquidity is very important to management of any firm. It is dependent on its ability and efficiency to transform resources into cash which can then be used to run the organization with ease. It is for this reason that investors prefer investing in securities that provide a return to them in form of dividends to safeguard against cash flow problems (Marfo & Agyei, 2011). Companies can opt to pay cash dividends hence reduce investor reliance on the liquidity of the market to therefore increase their valuations. This option is more suited for companies with higher discount rates due to tight liquidity levels (Fama &

French, 2006). Glen et al (2006) provided an assessment on risk tolerance in various companies, changes in profit levels including other factors and their impact on distribution of dividends. Their research concluded that the dividend payout ratio is mostly affected by the growth in sales, profitability measured by return on equity, liquidity measured by current ratio, risk, control or insider ownership and expansion in capital expenditure.

Companies are able to pay dividends if and only if an organization through its operations is able to generate cash inflows (Sharma, 2011). Banking industry in Kenya is no longer limited within the boundary geographically but goes beyond to other countries therefore the banks are expected to pay dividends to their investors as a sign of liquidity. Investments with higher levels of liquidity normally exchange at a premium compared to investments with lower levels of liquidity. Mehta (2012) praised the economy of United Arab Emirates especially the financial sector because it was able to withstand the challenges brought about by the financial meltdown that spread through various continents. The crisis led financial institutions to increase capital in order to curb against liquidity crisis that may arise. Most companies increased its equity through their shareholders before sourcing for alternative means (Mehta, 2012).

A firm should issue dividend out to reduce cash flow i.e. liquidity in the company and protect the managers from spending more cash in projects that are not viable. Therefore payment of dividend is seen as a mechanism to control the agency problem (Lie, 2005). Brav et al (2012) discussed the factors that affect distribution of dividends by reviewing major banks in United States that had a higher value in their share price. Using factors analysis their findings showed that the companies with adequate cash flow also have low systematic risk which implies high quality to pay higher dividends (Brav et al., 2012). On the other hand, the firms with cash shortage are less likely to pay dividend. Adil et al., (2011) attempted to identify the determinants

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of dividend payout of the firms listed in Karachi Stock Exchange using operating cash flow as a measure of liquidity. They concluded that an increase in operating cash flow reduces the degree of dividend payout in the sampled firms (Adil et al., 2011).

Bhattacharya (2009) argues that when shareholders have adequate power, liquidity would be more strongly inter-related with dividend payout as managers would be more likely to pay dividends to meet shareholders' preference for liquidity. Shareholders would then analyze possible explanations for the decline in the number of dividend paying companies. They first identify the characteristics of dividend paying firms, and then find out if the decline can be explained by variability in the prevalence of these characteristics that have been identified (Bhattacharya, 2009). Shareholders argue that decline in dividend paying firms still persists even after controlling characteristics which include size, profitability, and growth opportunities can be better explained by a generalized reduction in the propensity to pay, rather than by a change in the characteristics of companies. DeAngelo and Skinner (2009) investigated the relationship between dividend payout and stock market liquidity in various companies. They, however, concluded that there exists a negative relationship between dividends paid out and stock market liquidity, interpreting this as a sign that investors view liquidity and dividends as substitutes (DeAngelo & Skinner, 2009).

Adil et al (2011) in carrying out research on dividend distribution and issuance for firms in the telecommunication sector in Taiwan securities market between 2005 and 2010 came to a conclusion that changes in cash flows of organizations had a direct effect on distributing dividends. In addition, they noted that firms which generated higher revenues which led to favorable profits could declare dividends to their investors. Holder et al (2008) concluded that liquidity is positively related to the probability to pay dividends. They commented that dividend

paying firms have more liquid markets and that relationship between liquidity and dividends is much stronger for firms with stronger shareholders' power. John and Greg (2010) examined corporate dividend policy of Indian Paper industry with the results showing that there was negative relationship between liquidity and dividend payout, because as more cash is paid out to investors in the form of dividends, it reduces the cash on hand.

Dividend payout decisions are also affected by liquidity conditions of the investors. Distributing cash dividends to shareholders increase their cash balance and enhances their liquidity position. The decision to distribute dividends may have a significant impact with the properties of share price and hence liquidity of stock in the capital market (Bhunia, 2010). Issuing dividends reduces the potential for internal equity financing and thereby increases the cost of external financing and results in decreased levels of investment. A firm should pay out dividends only when it does not foresee any viable or favorable investment opportunities because internal financing is cheaper. With cash flows from existing operations being more predictable than cash flows from risky investments, uncertainty in returns would be reduced and stock price volatility may subside decreasing the adverse selection costs faced by liquidity-constrained shareholders (Abuzar, 2013).

Mehta (2012) reviewed the determinants of dividend payout policy for United Arab Emirates (UAE) organizations. His research analyzed a variety of determinants of dividend policy that comprises: Liquidity, Leverage, Profitability, Growth and Size of the firms. The result demonstrated that liquidity and leverage were not significant in influencing the dividend payout decisions. Samuel et al., (2010) in their appraisal of dividend policies of firm and liquidity constraints in Nigeria noted that investment has a huge significance on the effect of dividend policy of firms but liquidity had minimal significant effect on dividend policy of the companies.

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Fama and French (2006) examined the significance of a corporation's net profit after tax, level of capital structure and levels of changes in cash flows in making strategic decisions regarding distributing dividends. Kim and Gu (2009) in their study highlighted that payment of dividends is impacted by cash inflows and outflows, ability to transform resources to cash, earnings generated by operations and expansion of a company. Aivazian et al (2013) discovered that investors with investments that are not easily convertible to cash have a higher chance of receiving dividends in form of cash to compensate them for the difficulty in trading their investment.

2.2.3 Size of the Firms and Dividend Payout Policy

Size of a firm has been considered to be a factor in determining dividend policy of a firm. Biswajit and Kailash (2015) studied on the determinants of dividend policy in Pakistan the results show that there is a negative and significant relationship between dividend Payout and size. This result shows that large-sized firms prefer to pay less dividend; therefore, we fail to reject the null hypothesis that size has negative relationship with dividend payout Vivek and Xiaorong (2012) researched on companies listed on Amman Stock Exchange for the period of 2005-2009. He found out that there is strong significant positive relationship between firm size and dividend payment decision. This means that large Jordanian firms tend to be more diversified than smaller firms and hence less likely to be susceptible to financial distress, and more able to pay dividends to the shareholders. This relation is supported by the transaction cost theory of dividend policy.

Farsio (2008) also examined the factors that impact on distribution of dividends in financial institutions in the financial market of Australia. Their findings showed that a firm's capital structure, expansion opportunities and earnings had a direct impact on dividend payment whereas debt levels had an inverse impact on dividend payment. AlKuwari (2009) in his comprehensive study on Savings and Credit Cooperative institutions pointed out that levels of capital structure, shareholding by the government and net earnings of a company had a direct impact on issuance of dividends but parameters of debt levels had an adverse effect on dividends distributed to shareholders. He was of the opinion that several organizations pay dividends to send a signal to the market that the companies are performing well and investors' return is guaranteed (Al Kuwari, 2009).

Imran (2011) investigated the factors impacting on dividend distribution of manufacturing sector in India between the periods 2000 and 2005. During his research he discovered that distribution of dividend was directly impacted by the composition of shareholders' funds, dividends that were issued in the prior year, percentage of retained earnings, earnings yield and changes in revenue collection by the firm. On the other hand, cash flow had an adverse effect on issuance of dividend in that the more the cash outflows the less funds the company has to issue dividends (Imran, 2011). Mercado and Willey (2005) in their research concentrated on banks in the United States between the years 1990 and 1995. They established that size of the banks was found to be the only variable with a significant relationship to the dividend payout ratio. They were involved in further research and emphasized that majority of the banks sampled paid dividends as a way of mitigating any conflict that may arise between the investors and management.

Kennedy and Nunnally (2006) in their quest to demystify the dividend puzzle researched on top ten large banks in England between the years 1985 till 1989. As expected the findings of their

comprehensive study clearly indicated that the prior financial period dividends if any and the magnitude of the capital outlay of the banks had a direct impact on distribution of dividends in each of the period under review.

Nopphon (2013) also studied the Greek firms set their dividend policies not only by net distributed earnings but also the changes in dividend and size of the firm where the empirical findings of the research suggested that size of the firms was included as a signal about the firm's dividend. Nopphon (2013) in his study concludes that large firms are more likely to be mature and thus have an easier access to capital markets and should be able to pay more dividends. Biswajit and Kailash (2015) studied UAE Companies for the years 2005 to 2009 and concluded that the Size of the firm is significantly and positively related to the dividend payout of the firm in the UAE. Like earlier studies, this research also concludes that the larger size firms pay out more dividends as compared to firms with smaller size. Large companies have easier access to the capital market and hence are less dependent on the internal funds, leading to more capability to pay the dividends.

Richard et al., (2014) Firm size was also found to be a statistically significant determinant of dividend policy. This result showed that firm size and dividend ratio have a positive association. It is noticeable that the value of this coefficient was relatively low. This is because the units of the firm size variable are large, being in US $1000. Nevertheless, this result suggests that the dividend ratio increases with firm size. Nopphon (2013) studied factors affecting dividend payout for listed non-financial firms of Karachi Stock Exchange. From the regression results it showed that out of the 6 explanatory variables under study firm's Size was found to have significant impact on dividend payout. The probability was within 5% benchmark probability level. Thus, size plays a significant role in determining the dividend payout in Pakistan. The

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observed value of T-Statistics was also more than the tabulated t-statistics reinforcing the level of significance of probability. Thus if there is 1% change in firm size, it would determine up to approximately 5% change in dividend payout. Size was found to have positive relationship with the dependent variable of dividend payout. The results show that there is a negative and significant relationship between dividend payout and size. This result shows that large-sized firms prefer to pay less dividend; Biswajit and Kailash, (2015) in their study dynamics and determinants of dividend policy in Pakistan evidence from Karachi stock exchange for nonfinancial listed firms. The results show that there is a negative and significant relationship between dividend payout and size. This result shows that large-sized firms prefer to pay fewer dividends.

2.2.4 Leverage and Dividend Payout Policy

Emamalizadeh, Ahmadi and Pouyamanesh (2013) conducted a study to determine the Impact of Financial Leverage on Dividend Policy at Tehran Stock Exchange: A Case Study in Food Industry. The aim of the study was to examine the relationship between dividend policy and financial leverage of 33 food companies listed in Tehran Stock Exchange with 242 data ,during the period 2003 to 2010. The study adopted a descriptive research design. The findings revealed that food industry companies had 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. When rate of debt ratio is more than dividend yield, it has negative relationship. The study recommended that, managers can provide positive and profitability for share-holders by decreasing the debt payment time, and this case will be verified by proper management of receipt account and good performance of current

debt. Also managers can provide positive and profitability value for share-holders by decreasing debt and that case will be verified by proper management of dividend policy.

Vengesai and Kwenda (2018) observed significant correlation between the dividend payment decision and the ratio of earned capital to total controlling capital, size of the firm, profitability of the company, growth rate, leverage and cash in hand and previous dividend payment history. The dividend payment has a hidden management opportunity as with the retention of the earnings, increases the money managers control upon the retained earnings which may be applied for better investment opportunities but may also be disbursed without any suitable monitoring. The leverage (Lev) also influences the dividend behavior of companies, provided the level of the leverage is high, which means that investment in the firm is comparatively riskier in the manners of cash flow. The negative impact of leverage upon the dividend payment documented by Higgins (2015) and McCabe (2017) who finds that companies who have a past of higher leverage normally pay lower dividend to avoid the higher cost of raising external capital for the company.

Houmani, Farahani and Ghara Jhafari (2014) conducted a study on whether gradual increase in financial leverage has effect on management of companies profit listed in Stock, and their results indicated there is no significant relationship between profit value management with high financial leverage and companies involved in increasing financial leverage. Totally, financial leverage is not an effective factor on companies dividend listed in Stock, which is not in agreement with the results of the current research. Also, Kangarloei, Motavassel, Arzanlu and Soleimani (2012), presented that ratio of ROE and ROA are effective on changes Stock Costs, but have no significant effect on financial leverage. They also studied that in industrial separation level, the results of effecting financial ratio are different with other industries.

Chen and Kien (2019) carried out a study on the Performance of Dividend ETFs the Spillover and Leverage Effects. The main objective of the study was to identify the existence of spillover and leverage effects from returns and return volatilities of high yield and low yield dividend ETFs on tracing market stock indices, and vice versa. The study used daily closing prices of ETFs and their corresponding stock index from the Yahoo Finance website. The findings of the study indicated that the spillover effect in return was more happening in a group of low yield dividend ETFs, while the spillover effect on return volatilities was more dominant in a group of high yield dividend ETFs. In the case of the leverage effect, it existed in all ETFs and the stock Index, in which the negative asymmetric volatility effect more happens when comparing the positive asymmetric volatility effect. The study also indicated that, the dividend-payout policy is measured as one of the critical financial decisions, and dividend payment may influence the interests of shareholders and the future growth of a firm. It was concluded that, the spillover effect of return performs more frequently for low yield dividend ETFs, while the spillover effect of return volatility is dominant in the case of high yield dividend ETFs.

Asad and Yousaf (2014) examined the imp act of leverage on dividend payment behavior of Pakistani Manufacturing Firms. The purpose of the study was to examine the impact of leverage on dividend payment pattern of Pakistani manufacturing firms. 44 companies from five different sectors having regular dividend payment history were included in sample. The annual data for these companies from 2006 to 2011 is used in the study. The findings indicated that leverage has significant negative impact on dividend payment pattern of sampled firms. Dummies variable used to identify the sector specific impact of leverage on dividend payment reveal that effect of leverage on dividend distribution in sugar and textile industry behave differently as compare to other sectors. The study further revealed that, firm value solely depends upon earning power of

its assets and risk associated. Corporate dividend policy is subject to influence by many factors which managers keep in mind while labeling the dividend policy. Leverage is most dominant factor among all. The study concluded that, level of leverage negatively affect the dividend payment pattern in sampled firms. It was hence recommended that, corporate management should decide diligently while deciding the employment of debt in capital structure and devising the dividend policy too after financial mix has been decided.

2.3 Theoretical Review

This section presents the theories that inform the study. The study is informed by four theories namely: Dividend relevance theory, dividend preference, the signaling theory and the bird-in-the-hand theory. Dividend relevance theory state that share value is determined by the present value of future dividend and the selling price of the share. According to the bird-in-the-hand theory, all other factors are equal; investors prefer dividends to capital gains because they perceive dividends today as a certain cash flow, as opposed to capital gains in the future which are uncertain. Regarding dividend preference theory, stockholders can switch firms based on their specific dividend preference a firm can change from one dividend payout policy to another and then let stockholders who do not like the new policy sell to other investors who do. However, frequent switching would be inefficient due to some constraints brokerage costs, the likelihood that stockholders who are selling will have to pay capital gains taxes, and a possible shortage of investors who like the firm's newly adopted dividend policy. Thus, management should be hesitant to change its dividend policy, because a change might cause current shareholders to sell their stock, forcing the stock price down. Such a price decline might be temporary, but it might also be permanent. The signaling theory implies that investors partially base their assumptions of future cash flows of a firm on signals sent from that firm. It revealed

that information asymmetry between managers and outside shareholders allows managers to use dividends as a tool to signal private information about a firm's performance to outsiders. Based on these theories, the study uses the following conceptual framework.

2.3.1 Dividend Relevancy Theory

Financial decisions made by a firm are mainly classified into two broad categories: investment and financing decisions Baker & Powell, (cited in Subba, 2015). While investment decisions are concerned with type and amount of assets that the firm wants to maintain, financing decisions are concerned with securing necessary funds to finance these assets. Financing assets take the form of equity or debt. Dividend decisions, however, are considered to be a type of financing decision since they impact the amount of earnings that a firm distributes to shareholders and the amount of earnings retained for reinvestment. Corporate dividend policy refers to a decision on whether to distribute part of earnings among shareholders or retain them for future reinvestment. Dividends policy involves elements, such as the average fraction of earnings to be paid out over time and whether the firm should maintain constant dividend growth rate. In other words, dividend policy involves decisions on how much and when earnings should be paid as dividends.

Determining dividend pay-out is not straight forward since it is likely to influence shareholders' wealth and the firm's ability to retain profit to invest in profitable investment opportunities. Hence, Pruitt and Gitman, cited in Kent et al., (2013) strongly believe that dividend and financing decisions are interrelated and cannot be separated. For example, if a company decides to pay dividends, this means that less earnings are available to invest in profitable projects. This move might force the company to raise funds externally. Consequently, it is not surprising to see some managers viewing dividend policy as a factor that would influence shareholders' wealth and corporate value. Thus, dividend policy is relevant to the value of the company.

Dividend Relevance Theory Dividend relevance theory is not a new issue. It goes back to the early part of the twentieth century when Williams cited in Manon et al., (2015) claimed that share value is determined by the present value of future dividend and the selling price of the share. This claim has been supported by Graham and Dodd (1951) who emphasized that a share price is influenced by dividend and earnings. The claim was also supported by Gordon (1959) cited in Manon et al., (2015) who developed a model that relied on dividends distribution to corporate share value. Accordingly, dividend policy is an important factor in determining the value of the firm.

Market price would increase with high dividend pay-out and decline with low dividend payout. Hence, an optimal dividend policy that maximizes the value of the firm can be achieved, although how value maximization can be achieved is still debatable. Dividend relevance theory is relevant to the current study because it claims that investors view dividend payout as a sign of management capabilities and investors look at dividend policy as an important factor in assessing the certainty of a company's profit. Hence, frequent and high corporate dividend policy indicates that the company is very likely to perform well. Therefore, high dividend pay-out is a sign of overall financial health of the company. This study sought to establish the influence of levels of profits on dividend payout policy among commercial banks in Kenya. The theory informed the variable on level of profits. The theory is relevant to the study because it was able to shed light on the importance of assessing the profit levels of the firm before considering paying dividends.

2.3.2 Bird in the Hand Theory (Dividends Preference)

According to the bird-in-the-hand theory, which criticized Miller and Modigliani's paper explains that investors prefer dividends (certain) to retained earnings. This proposed by Brian (2016), Joshua and Vera (2013), if all other factors are equal, investors prefer dividends to

capital gains because they perceive dividends today as a certain cash flow, as opposed to capital gains in the future which are uncertain. The name *"bird in hand"* is the umbrella term for all studies that argues that dividends are positively correlated to the company's value, hence company value act as a motivating factor for the payment of dividend. It is based on the expression that *"a bird in the hand is worth more than two in the bush".* Expressed in financial terms the theory says that investors are more willing to invest in stocks that pay current dividend rather than to invest in stocks that retain earnings and pay dividends in the future. They argue that the combined value of dividends and capital gains diminish when dividend payout ratio increases.

When a firm increases its payout ratio, investors become concerned that the firm's future capital gains will diminish, since the retained earnings that the firm reinvests into the business is reduced. Whether or not dividends are more certain, will be left uncommented and in this case it is not important. The important thing is that investors often believe that they are, such that it influences their preferences towards dividends. Moreover, when making dividend payouts, the firm gets a higher rating from rating agencies as compared to a firm not making any dividend payout. With a better rating, the firm will be able to raise finance more easily from capital markets since credit institutions will be willing to give loans to the firm since the payout of dividends shows that the firm has the ability to meet its obligations. Moreover, in some cases, the firm will be able to borrow at preferential rates and enjoy better facilities. Kent et al., (2013) further argue that firms making dividend payouts tend to have an increase in the value of the firm. The theory informs the variable on size of the firm. The theory helps the researcher understand how the value of the firm which is in terms of size can determine the level of dividends payed out.

2.3.3 Tax Preference and Clientele Theory

Given the nature of dividend payouts, it makes most sense if only a few or no firms paid out dividends at all. When compared to other means of distributing wealth to shareholders, dividends are costlier in the majority of countries since they are taxed at a higher rate. Because of these taxes, investors cannot create their own dividend policy without inflicting additional cost, and because the tax rate is higher on dividends than on capital gains, most investors are better off without dividends. Normally most investors pay higher taxes on dividends than on capital gains, however depending on which type of investor is considered, there is a separation into different tax brackets. Some investors have low marginal tax rates or are completely tax exempt. Such investors are typically large institutional investors as insurance funds, and pension funds. Because of these different tax implications for different types of investors a tax clientele effect may arise, some showing preferences for dividends and some for capital gains depending on what maximizes their value. Because dividends normally suffer from tax disadvantages, investors with a low marginal tax rate are expected to invest in high dividend yielding stocks and vice versa. Sébastien and Aymen (2016), suggested that the clientele effect does indeed exist. Laurence and Jun (2015) argued against clientele effects by showing that tax differences between dividends and capital gains can be neutralized by simply levering the portfolio.

An investor in a high tax bracket would prefer to invest in stock giving a low rate of return so as to pay less tax. On the other hand, an investor in a low tax bracket would definitely invest in stocks with higher returns as he currently does not have a large tax liability. Laurence and Jun (2015) showed that older investors (retired persons) were more likely to hold high dividend shares because they pay lower income tax. In this case we call it the tax clientele effect. Hence the clientele effect refers to firms making their dividend policy decision based the customers they

would like to attach to themselves (Al-Najjar, 2016). Laurence and Jun (2015) avowed as stockholders can switch firms based on their specific dividend preference a firm can change from one dividend payout policy to another and then let stockholders who do not like the new policy sell to other investors who do. However, frequent switching would be inefficient due to some constraints brokerage costs, the likelihood that stockholders who are selling will have to pay capital gains taxes, and a possible shortage of investors who like the firm's newly adopted dividend policy. Thus, management should be hesitant to change its dividend policy, because a change might cause current shareholders to sell their stock, forcing the stock price down. Such a price decline might be temporary, but it might also be permanent. So the existence of a clientele effect does not necessarily imply that one dividend policy is better than any other. May be wrong, though, and neither they nor anyone else can prove that the aggregate makeup of investors permits firms to disregard clientele effects. This issue, like most others in the dividend arena, is still up in the air (Joshua & Vera, 2013). This theory is relevant to this study since it informs the variable on leverage.

2.3.4 Signaling Theory

Management will not increase the dividends unless they certain about the future earning to meet the increase in dividends. And conversely dividend cuts are perceived as "bad news" if the firms reduce dividends, it sends to investors a negative message that future earning will be less than current (Hussein et al., 2016). According to Signaling theory, managers have inside information about a firm that they cannot, or do not wish to pass on to the shareholders, for example, better estimates of future earnings. Corporate dividends are considered to be management's most cost-effective way of reducing the investor uncertainty about the company's value. Choi and Doowon (2014) and Brian (2016) suggest that outside investors have imperfect information about firms'

profitability, and therefore dividends function as a signal of expected cash flows. Hence dividend act as signal of the stability of the firms' future cash flows.

The idea is that there are many signals which can give hints to what level of future cash flows can be expected, or if they will increase or decrease. The reasoning is that firms which are confident about high future cash flows would like to communicate this information to the investors because it could most likely increase market value of the firm. At the same time however, any firm would like to increase their market value, so the signals should be such that poor performing firms would be unable to mimic them.

Signaling helps to explain why some firms would want to pay out dividends. In most cases dividends' benefit to shareholders is smaller than from capital gains because of the higher tax rate; however, dividend announcements can be used to highlight managers' confidence in expected future prospects of the firm. Research in dividends done by Brian (2016)) and indicates that the effect of signaling by means of dividend payouts is greater in cases with higher degree of asymmetric information. They show that the level of asymmetric information is positively correlated with stock price effects from signaling through dividend announcements.

However, Laurence and Jun (2015) and Brian (2016) find opposing evidence that dividends are not good at explaining future earnings. If the effect of asymmetric information on dividends is great, then it should be clearly reflected by smaller firms paying out dividends to a higher extend than the larger. Managers are often reluctant to reduce dividend payments base a part of their perception of the certainty about future earnings on announcements of dividends. Therefore, dividend omissions are not well received by the investors. Investors see increases in dividends as a positive signal while decreases are perceived as negative. Furthermore, Joshua and Vera (2013) show that the effect of dividend-signaling is even higher when taxes on dividends are high. The

choice of dividend policy decides whether or not dividend-signaling sends information to the investors. Managers can set the policy so that dividends are paid as a fixed percentage of earnings resulting in a disappearance of the signaling effect. Investors can no longer rely on changes in dividends as a signal of the future prospects of the firm, because dividends are no longer set by managers to reflect their future earnings expectations. The theory informs the variable on liquidity of the firm.

2.4 Conceptual Framework

A conceptual framework is a figure that shows the relationship between the dependent variable and the independent variable (Dafna et al., 2015). In this study the dependent variable is dividend payout policy while the independent variables are the levels of profits, firm size, liquidity and leverage. A conceptual framework shows the relationship between the dependent variable and the independent variables as shown in Figure 2.1.

```
┌──────────────────────┐
│  Levels of profits   │ ──────►┐
└──────────────────────┘        │
┌──────────────────────┐        │        ┌──────────────────────┐
│   Size of the firm   │ ──────►│ ──────►│   Dividend payout    │
└──────────────────────┘        │        │       policy         │
┌──────────────────────┐        │        └──────────────────────┘
│      Liquidity       │ ──────►│
└──────────────────────┘        │
┌──────────────────────┐        │
│      Leverage        │ ──────►┘
└──────────────────────┘
```

    Independent variables   **Dependent Variable**
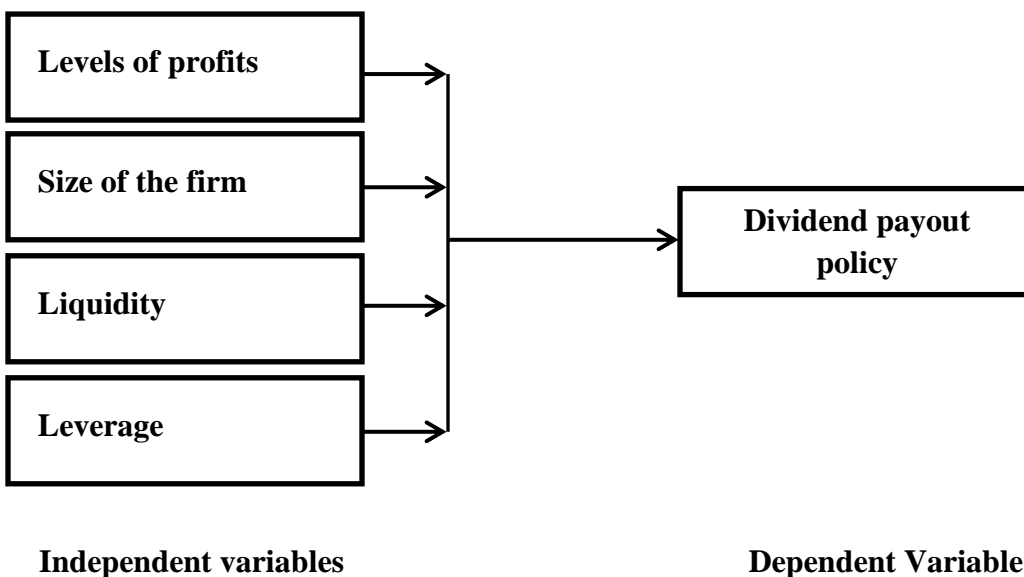
Figure 2.1: Conceptual Framework

Firms that rely more on internal funds or retained earnings as a result the firms may have a tendency of paying less dividend and having more retained earnings. Profitable firms will prefer lower dividends. The study sought to establish the influence of levels of profits on dividend payout policy among commercial banks in Kenya. The study sought to establish the influence of liquidity on dividend payout policy among commercial banks in Kenya. Liquidity describes the degree to which an asset or security can be quickly bought or sold in the market without affecting the asset's price. Liquidity is the ability of a firm to meet its obligations as and when they fall due. Liquidity position is an important determinant of dividend payouts.

The market liquidity of the firms has a positive influence which confirms that firms with higher market liquidity pay more dividends. Moreover, dividends also provide executives with liquidity and aid in diversification, higher stock ownership may be associated with higher dividends. Further, the study sought to establish the influence of bank size on dividend payout policy among commercial banks in Kenya. Size of a firm has been considered to be a factor in determining dividend policy of a firm. Studies have shown that there is a negative and significant relationship between dividend payout and size while other studies have shown otherwise. This result shows that large-sized firms prefer to pay fewer dividends.

Lastly, the study sought to establish the influence of leverage on dividend payout policy among commercial banks in Kenya. Companies must meet their debt obligations before distributing dividends. Interest on borrowed funds is payable regardless of the profit position. Nevertheless, shareholders should be compensated for their risk in investing in the company. Therefore, highly leveraged companies will have higher and more frequent interest payments keeping the dividend

level very low whilst companies with less debt obligations will have more retained earnings to distribute as dividends.

2.5 Operational Framework

Figure 2.2 presents the operationalization of variables framework showing the relationship between the parameters, the independent variables and the dependent variable.


```
┌─────────────────────────┐
│ Level of Profit         │
│ • Net Income            │
│ • Shareholders' Equity  │
└─────────────────────────┘
┌─────────────────────────┐
│ Size of Firm            │
│ • Total Assets          │
│ • Number of branches    │
└─────────────────────────┘
┌─────────────────────────┐
│ Liquidity               │
│ • Current Assets        │
│ • Current Liabilities   │
└─────────────────────────┘
┌─────────────────────────┐
│ Leverage                │
│ • Total Liabilities     │
│ • Total Assets          │
└─────────────────────────┘

        ┌──────────────────┐
        │ Dividend         │
        │ Policy Payout    │
        │ • Total          │
        │   dividend paid  │
        │ • Net income     │
        └──────────────────┘
```
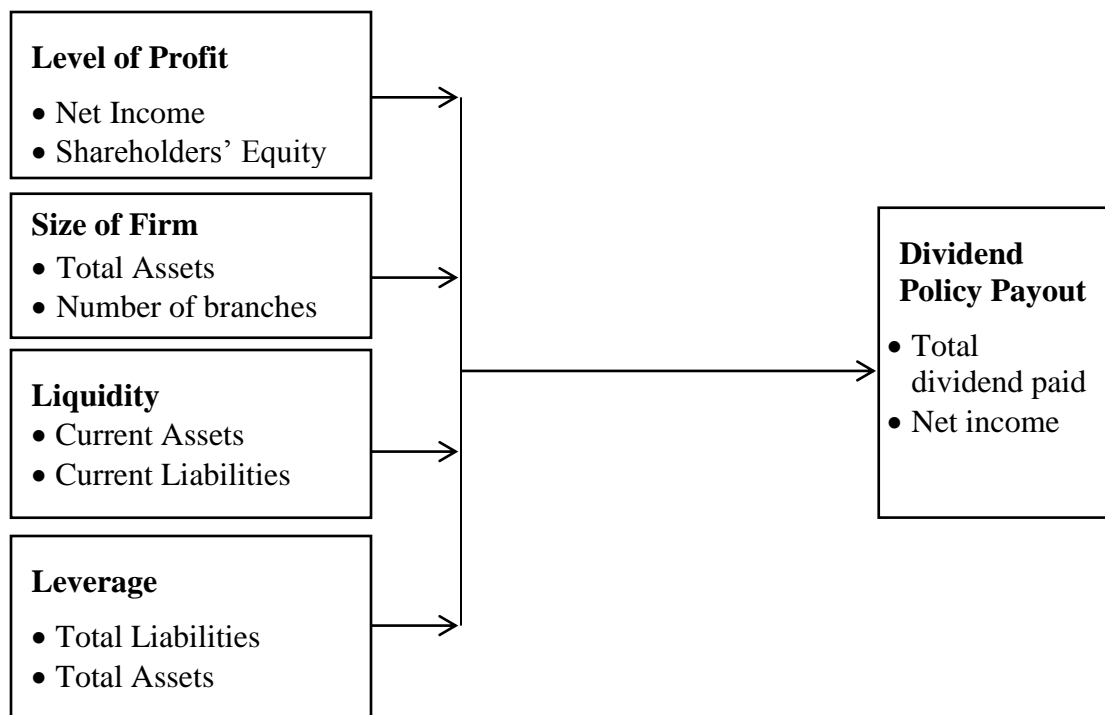
Figure 2.2: Operational Framework

2.6 Research Gaps

From the reviewed literature, the dividend determinants have been well researched and well documented in developed countries, emerging markets like Malaysia, India, Pakistan and Saudi Arabia and few in Africa like Nigeria, South Africa and Ghana but there is paucity of empirical

studies in Tanzania context. Therefore, the study seeks to fill the existing knowledge gap by investigating the determinants of dividend payout policy among commercial banks in Kenya.

Furthermore, various studies from different country, economy and business environment have been carried out to solve the dividend puzzle. But due to the inconsistency or, the variation in legal, the tax and the accounting policy among the countries and across industries with mixed characteristics, thus why there is no unified way to set out dividend payout policy. This implying that dividend puzzle still exists and necessitates carrying out the study regarding determinants of dividend payout policy among commercial banks in Kenya. Finally, most of existing studies have used multiple regression but not panel data (cross sectional)/time series multiple regression. This study adopts another methodology, panel data regression in analyzing the determinants of dividend payout policy among commercial banks in Kenya.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter constitutes the procedures and methods, which were employed in the study. These include the research design, target population, sampling procedure, instrumentation, pilot study, validity and reliability of research instruments, data collection methods, data analysis and presentation and lastly ethical consideration.

3.2 Research Design

This study used descriptive research design. According to Anatoliy and Maryna (2014), descriptive survey involves a clearly defined problem and definite objectives and questions and development of generalization, principles or theories that have universal validity. Descriptive survey method involves asking a large population questions about a particular issue. Information was collected from a sample population as opposed to the whole population at a particular point in time. The design enables the researcher to establish opinions and knowledge about financial determinants of dividend policy payout among commercial banks in Kenya.

3.3 Target Population

A target population is that population to which a researcher wants to generalize the results of a study. In the views of Liang and Mackey (2013) the target population or the universe describes all the members of the real or hypothetical set of people, events or objects to which the

researcher wishes to generalize the results of the research study. In this study, the researcher targeted all the 42 banks in Kenya.

3.4 Sampling Procedure

Sampling method represents the rules and procedures by which some elements of the population are included in the sample. The objective of sampling is to identify representatives from the larger population for purposes of fulfilling the study objectives. The idea behind the sampling process is to overcome challenges and constraints in studying the entire population (Simplice, 2016). Since the study targeted only forty two commercial banks which was a small population, Census method was used and involved all the commercial banks in Kenya.

3.5 Instrumentation

The study collected secondary data on financial determinants of dividend payout policy among commercial banks in Kenya. The data were collected using a secondary data collection sheet to ensure all the important information was captured (See appendix II).

3.5.1 Validity of the Research Instrument

According to Creswell (1998) validity of a test is a measure of how well a test measures what it is supposed to measure Mugenda and Mugenda (as cited in Gerlach & Svensson, 2013). To ensure that the secondary data collection sheet is designed, collects the kind and scale of data sought, the researcher took into account the opinions from experts in the banking sector and research project supervisors.

3.5.2 Reliability of the Research Instrument

According to Jensen and Johnson (2014) reliability essentially concerns the extent to which the research instrument administered more than once would yield similar results. As Prather and

Bertin (2015) further presents, the idea behind reliability is that any significant results must be more than a one-time instance finding and must be inherently repeatable. It concerns the data reflecting the honest representation of the situation. To ensure reliability Cronbach's alpha was used see section 4.3.

3.6 Methods of Data Collection

The study collected secondary data from authoritative and official sources such as the CBK and individual banks audited end of year financial reports.

3.7 Data Analysis and Presentation

The collected quantitative data was analyzed using STATA. The data was analyzed using both descriptive and inferential statistics. The specific descriptive statistics included mean, standard deviation, percentage and frequency, while the particular inferential statistics included both correlation and regression analyses which were used to show the association and relationship between the variables. The results were represented on tables, charts and graphs.

To determine the strength of the relationship between the variables, the researcher used the model:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where; Y= the dependent variable (Dividend policy payout)

α - Is a constant and it's the Y value when all the predictor values (X_1, X_2, X_3 and X_4) are zero, β_1, β_2, β_3 and β_4 – Are constants regression coefficients representing the condition of the independent variables to the dependent variables. X_1= Size of the bank; X_2 = leverage; X_3 = Liquidity, X_4 = profit levels and ε - (Extraneous) Error term explaining the variability as a result of other factors not accounted for.

3.7.1 Variables and Their Measurement

A. Measuring Profitability

Profitability is the single most important factor in a company's financial statement and it has been widely used in previous studies in order to determine the relationship with the company's dividend payout ratio (Amidu, 2007) (Kapoor et al., 2008). Most previous studies have found a positive relationship between profitability and the company's dividend payouts. But many different measurements have been used in measuring profitability however Al-Kuwari (2009) used EBIT/Equity as a measurement of profitability.

ROE = <u>EBIT</u>

      Equity

B. Measuring Firm Size

There are different measures of firm size (e.g. employment, sales, assets, and capitalization). In this study, the firm's natural logarithm of total asset is used as a measure for size. This measure has frequently been used by earlier research such as (Gill, et al., 2009).

Size = Fixed assets + Current assets = Total Assets

Central Bank of Kenya classifies banks into three categories namely first tier, Second tier and third tier. The formula will be applicable for all the commercial banks (See appendix III)

C. Measuring Liquidity

In measuring liquidity which is an important factor for dividend payout, Al-Shubiri (2011) and A.Mehta (2012) suggested the use of Current Ratio as a measure of liquidity.

Liquidity has been measured by the following formula;

Liquidity=Current Ratio (Current Assets/Current Liabilities)

D. Measuring Leverage

In order to measure a company's leverage there are a wide range of formulas that can be used. One commonly used measurement is the debt ratio which is the expressed total debt/total assets. Debt ratio reflects the broader picture of company's liabilities; however, it is not straight forward about the proportion of debt to equity (Aivazian, et.al 2006). According to Werner and Jones (2003) debt to equity ratio indicates in which proportions the company is financed by creditors relative to shareholders. Therefore, in this study the debt to equity ratio as a measurement of leverage as per following formula will be used.

Leverage= <u>Short Term and Long Term Liabilities</u>

Total Assets

E. Measuring Dividend Payout:

The dividend payout ratio is defined as the percentage of the company's earnings that is distributed to shareholders or reflecting the percentage of net income (available for shareholders). It is calculated by dividing the total dividend to net profit of every stock. Rozeff (1982) was one of the studies which employed the same formula in determining dividend payout.

Dividend payout = <u>Total Dividend paid</u>

Net Profit

3.8 Ethical Consideration

The researcher obtained permission from the National Commission for Science Technology and Innovation (NACOSTI) before going to the field to commence data collection. When reporting

the results of the study, the researcher ensured that the research reported accurately represent what was observed after proper analysis of all the data collected.

CHAPTER FOUR

RESULTS AND DISCUSSIONS

4.1 Introduction

The data was collected on the thirty-eight commercial banks in Kenya over the period 2013 to 2017. Analysis was carried out with the help of SPSS version 22 and STATA version 14, analysis of secondary data commenced by undertaking a descriptive analysis of the study variables aimed at obtaining the general profile of the data. In addition, appropriate regression diagnostic checks were undertaken on the data so as to determine its suitability for further statistical analysis. Further, an estimation of the regression models specified in section 3.7 was undertaken and interpretation of the results performed using the inferential statistics; R-square, F-test (Wald-test) and t-test.

4.2 Descriptive Analysis

4.2.1 Descriptive Analysis Output

This sub - section presents the descriptive statistical analysis of the collected data for every variable under study, it indicates the means, standard deviation, and the least possible and maximum figures.

Table 4.1: Panel Variables Summary Statistics (Overall)

Variable	Frequency	Mean	Std.Dev	Min	Max
Profitability	190	0.340	0.040	0.229	0.454
Dividend payout	190	0.288	0.035	0.202	0.377
Bank Size	190	0.345	0.040	0.254	0.446
Liquidity	190	0.428	0.089	0.257	0.669
Leverage	190	0.429	0.082	0.257	0.750

Source: Research data, 2018

Table 4.1 indicates that for the periods under study (2013-2017), the profitability of commercial banks in Kenya had a mean profitability as measured by ROE for the five years being 0.340. This indicated that commercial banks were efficient at converting their investments into profits. This indicated that every Kshs of common shareholders' equity earned about Kshs 0.34 billion and deviated by Kshs .04 billion in the period under study.

The size of the bank was measured by a natural logarithm of individual banks' total assets, according to the results total banks assets averaged kshs .345 Billion. The result is also consistent with previous Kenyan study by biddle (2006) Bank size determines the dividend payout in various ways, larger banks are more efficient than smaller banks. Furthermore, smaller banks might have less control than larger banks therefore finding it complicated to outdo larger banks in a competitive business environment. As they grow bigger they might suffer losses leading to poor financial outcomes as a result of inefficiencies.

4.2.2 Descriptive Analysis for Levels of Profit

Table 4.2 shows the ROA summary statistics for each of the 3 bank tiers in Kenya as analyzed by the study. The results indicate that commercial banks in Tier 1 recorded the highest mean ROA of 0.3699667 recorded the highest followed by tier 2 banks with a mean ROA of 0.3515714. Tier 3 bank recorded a mean ROA value of 0.3309556 during the period under study. This indicates that banks in tier 1 had the highest return on their assets as a result of funds generated from their loan portfolio unlike banks in the other two tiers. This finding is in agreement with the central bank report which found that the loaning activities in tier 2 and 3 banks were in decline in favor of tier 1 commercial banks who have embraced mass retail banking and aggressive marketing (CBK,2015).

Table 4.2: Descriptive analysis for levels of profit

	Frequency	Mean	Std. Dev.
Tier 1	30	0.3699667	0.0399055
Tier 2	70	0.3515714	0.0387506
Tier 3	90	0.3309556	0.0348092

4.2.3 Descriptive Analysis for Liquidity

Bhunia (2010) reiterated that an examination into cash flow position is paramount when discussing issues to do with issuing dividends because it is directly associated with regular functions within the organization that requires movement of cash. Commercial banks report to Central Bank of Kenya on a monthly basis stating it liquidity position. This study sought to establish the liquidity position of commercial banks in Kenya based on their categories. Table 4.3 shows the liquidity summary statistics for each of the 3 bank tiers in Kenya as analyzed by the study. The results indicate that commercial banks in Tier 1 recorded the highest mean value of 0.3434553 during the period under study, followed by banks in tier 3 and 2 with mean values of 0.3360333 and 0.3178857 respectively.

Table 4.3: Descriptive Analysis for Liquidity

	Frequency	Mean	Std. Dev.
Tier 1	30	0.3434553	0.0639552
Tier 2	70	0.3178857	0.0597969
Tier 3	90	0.3360333	0.0536345

4.2.4 Descriptive Analysis for Bank Size

The magnitude of a company is a key parameter in determining whether to issue dividends in the sense that the probability of paying dividends is greater when the size of the company is bigger

(Howatt, 2009). This shows that the payment of dividend is directly related to the size of an organization, in this case the banks. The study sought to establish bank size based on bank categories in Kenya. The results in Table 4.4 show the bank size summary statistics for each of the 3 bank tiers in Kenya as analyzed by the study. The results indicate that commercial banks in Tier 1 recorded the highest mean value of 0.5075667 for the variable bank size during the period under study, followed by banks in tier 2 and 3 with mean values of 0.4386143 and 0.3923889 respectively.

Table 4.4: Descriptive analysis for Bank size

	Frequency	Mean	Std. Dev.
Tier 1	30	0.5075667	0.0874787
Tier 2	70	0.4386143	0.0865378
Tier 3	90	0.3923889	0.0733566

4.2.5 Descriptive Analysis for Leverage

Table 4.4 shows the leverage summary statistics for each of the 3 bank tiers in Kenya as analyzed by the study. The results indicate that commercial banks in Tier 3 recorded the highest mean value of 0.4360333 during the period under study, followed by banks in tier 1 and 2 with mean values of 0.4329333 and 0.4178857 respectively.

Table 4.5: Descriptive Analysis for Leverage

	Frequency	Mean	Std. Dev.
Tier 1	30	0.4329333	0.0839552
Tier 2	70	0.4178857	0.0797969
Tier 3	90	0.4360333	0.0836345

4.3 Correlation Analysis

To examine relationship between variables, the study employed Pearson's simple correlation analysis. A correlation coefficient measures the extent to which two variables tend to change together; correlations indicate the nature and strength of relationship between two variables under study. The coefficient describes both the strength and the direction of the relationship-it ranges between -1 and 1 that indicates how strongly two variables are linearly related. The correlation results are presented in Table 4.6

Table 4.7 indicated that profitability and Size have significant strong positive relationship as attributed by the correlation coefficient of 0.5987 and p-value of 0.0153. The results show presence of a negative and significant strong relationship between leverage and liquidity as proved by the p-value and the correlation coefficient (r= - 0.2296, p=0.0014).

The correlation matrix table shows presence of strong and significant negative relationship between leverage and profitability (r= - 0.0734, p=0.3144). There is an evidence of significant weak relationship between leverage and liquidity as attributed by the p-value and correlation coefficient (r= - 0.2296, p=0.0014). Furthermore, the results of the table show presence of a significant negative relationship between leverage and size as proved by the Pearson correlation coefficient of - 0.1581 and a p-value of 0.0294.

From the table, some of the independent variables are positively related to dividend policy payout as attested by the respective correlation coefficients: Size (r= 0.5092), profitability (r=-0.2141), liquidity (r=0.3400) and leverage (r=-0.0979). Accordingly, the ranking of the independent variables with their contribution to dividend policy payout was: size contributed

more to dividend policy payout (50.9%), followed by liquidity (34.0%), and followed by profitability (21.4%) and finally leverages (9.0%).

Table 4.6: Correlation Matrix

		Size	Profitability	Liquidity	Leverage	Dividend payout
Bank Size		1				
Profitability	r	0.5987	1			
	sig	0.0153				
Liquidity	r	0.6897	-0.1598	1.0000		
	sig	0.000	0.0277			
Leverage	r	-0.1581	-0.0734	-0.2296	1.000	
	sig	0.0294	0.3144	0.0014		
Dividend payout	r	0.5092	0.2141	0.3400	-0.0979	1.000
	sig	0.0000	0.0030	0.0000	0.1790	

N = 190

Source: Research data, 2019

4.4 Diagnostic Tests

The study carried out regression analysis to establish the relation among study variables after performing diagnostic tests. The following tests were first carried out to establish whether assumptions for linear regression were satisfied:

4.4.1 Normality Test

For the purpose of subsequent analysis, the variables were subjected to normality test to determine if the data were distributed normally or not. If the dependent variable is not normally distributed then there would be problems in subsequent statistical analysis until the variable assumes normality. Shapiro test was utilized to determine if the data was normality with focus on dividend payout (Dependent Variable). Shapiro Test for normality of dividend payout was used because the sample size was small (38 banks). Shapiro test is appropriate where the sample is

between 7 to 2000 respondents (Shapiro, 1965). For large samples of between 2000 and 5000 respondents, Kolmogorov – Smirnov (D) test is appropriate (Park, 2008; Garson, 2012). The hypothesis was to test whether the data was normally distributed is given by H0 and H1, set α = 0.05, the rule is reject the hypothesis, if p-value is not greater than 0.05, reject the null hypothesis: Park (2008) and Garson (2012), Where: the null hypothesis was that the data was normal while the alternative hypothesis was that the data was not normal.

The results of the test are shown in Table 4.8. The table indicates that using the Shapiro test, the dividend payout data were normal since the p – values for the test for individual variables were higher than 0.05. The study therefore concluded that the data for individual variables were normally distributed except for the variable-liquidity.

Table 4.7: Normality Test Results

Variable	Frequency	W	V	Z	Prob>z
Dividend payout	190	0.993	0.900	-0.241	0.595
Profitability	190	0.993	1.042	0.094	0.463
Bank Size	190	0.989	1.482	0.903	0.183
Liquidity	190	0.960	5.692	3.991	0.210
Leverage	190	0.982	2.526	2.127	0.117

Source: *Research data, 2019*

A graphical representation of observed values against expected normal values of the study variables were plotted on a Q-Q plot of dividend payout policy as shown on Figure 4.1. The observed values were found to coalesce along the line of good fit, which implies that the data were normally distributed.
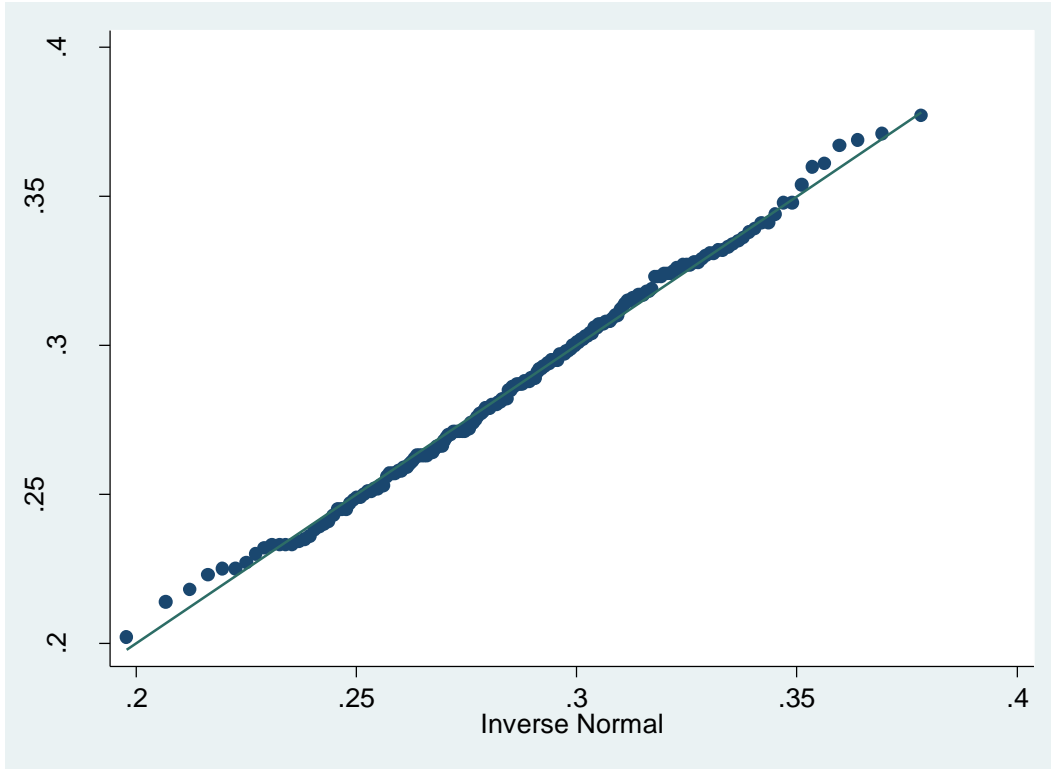
Figure 4.1: Normality Test Result

4.4.2. Multi-collinearity Test

Multi-collinearity is viewed as a situation where there is perfect relationship between variables. (Luu, 2014). The correlation matrix was used to establish whether there was highly collinearity among predictors and the weight of the correlation coefficient of the pairs. This bias arises when one or more pairs of independent variables are perfectly correlated to each other.

Table 4.8: Multi-collinearity Test Results

		Size	Profitability	Liquidity	Leverage	Dividend payout
Size		1				
Profitability	r	-0.0987	1			
	sig	0.1753				
Liquidity	r	0.6897	-0.1598	1.0000		
	sig	0.000	0.0277			
Leverage	r	-0.1581	-0.0734	-0.2296	1.000	
	sig	0.0294	0.3144	0.0014		
Dividend payout	r	0.5092	-0.2141	0.3400	-0.0979	1.000
	sig	0.0000	0.0030	0.0000	0.1790	

N = 190

Source: *Research data, 2019*

Multi-collinearity was considered present if the correlation coefficient was above 0.8 as it may lead to spurious regression. As indicated in Table 4.8, the correlation coefficients for the rest of the variables, being well below 0.8 did not indicate presence of multi-collinearity as commended by (Gourevitch & James, 2005)

4.4.3 Stationarity Test

To elude variation of the estimates over time as results of non-stationarity, unit root tests were applied to investigate or detect non-stationarity in all the study variables which in turn leads to spurious estimates. In this case, all specific characteristics under study were subjected to Levin-Lin-Chu unit-root test (Guller, 2003). In this test if variables are found to be non- stationary, first differencing or successful lagging is applied until the bias is eliminated. The null hypothesis in this case was that the variable under consideration was non-stationary or has unit root and in this

study, it was stated as; Null hypothesis (Ho): Panels contain unit roots and alternative hypothesis (Hi): Panels are stationary.

In view of results in Table 4.9 (see appendix V) the Levin-Lin-Chu unit-root test indicates that almost all variables had P-values less than significance level of 0.05 which allowed the rejection of the null hypothesis (that unit root was present).

4.4.4 Heteroscedasticity Test

Heteroscedasticity refers to a situation where the variance of the residual-term is not constant but varies with changes in explanatory variables (Gourevitch,and James, 2005). Although use of heteroscedastic data still provides unbiased OLS estimators, they are not efficient i.e. they do not have minimum variance in the class of all unbiased estimators. This results to smaller t-statistic value leading to inaccurate test of hypothesis. The assumption of classical linear regression model is therefore that the error-term variance should be constant. To test for panel level heteroscedasticity, the study adopted the; Breusch-Pagan/Cook-Welsberg test method. This involved first estimating the specified empirical models for fixed effects with robust-standard errors and then running the Pagan/Cook-Welsberg test against the null hypothesis of homoscedastic (constant) error variance (Torres-Reyna, 2007). The results are presented in Table 4.10.

Table 4.9: Heteroscedasticity Test

Fixed effects	Chi^2	Prob> Chi^2
Panel model 1 (NI)	8.49	0.0036

H0: Constant error variance (homoscedasticity)

The test results in Table 4.10 above for the regression model provided chi-square distribution value with corresponding p-values that was significant at five and ten percent level and hence the

null hypotheses of constant variance were rejected. This signified existence of panel-level heteroscedasticity in the panel data as recommended by (Wen, 2010).

4.5 Regression Analysis Results

To establish the influence of each independent variable on the dependent variable, first simple regression analysis was carried out. The results are presented as follows:

4.5.1 Levels of Profits and Dividend Payout

The study sought to establish whether dividend payout policy had a linear dependence on the independent parameters (levels of profit). A correlation value of 0.8075 was established by the study. This depicts a very good linear association. It established an R-square value of 0.6120 and adjusted to 0.6001. The determination coefficient indicated that levels of profit explained 60.01% change in dividend payout among commercial banks in Kenya.

Table 4.10: Model Summary Levels of Profits and Dividend Payout

Model	R	R Square	Adjusted Square	RStd. Error of the Estimate	Durbin-Watson
1	0.8075a	0.6120	0.6001	1.39293	.2221

a. Predictors: (Constant), levels of profit

This implies that leverage has a significant influence on dividend payout.

Table 4.11: ANOVA of Levels of Profit and Dividend Payout

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	32.123	1	31.123	17.99	.000b
	Residual	64.028	37	1.730		
	Total	96.152	38			

a. Dependent Variable: Dividend payout
b. Predictors: (Constant), levels of profit

The study conducted a regression analysis so as to establish the influence of levels of profit on dividend payout.

From Table 4.12, the regression equation ($Y = \beta_0 + \beta_1 X_1$) was rewritten as follows:

$Y = 2.6811 + 1.33117X_1$

Whereby: Y = Dividend payout and X_1 = levels of profit

The data findings analyzed also shows that taking all other factors at zero, a 1 percent change in levels of profit will lead to a 0.452 percent variation in dividend payout. The findings are in line with Al-Shubiri (2011) who asserts that return on assets is regarded as one of the best measurements of an organization's profit because it depicts the capacity of the organization to generate cash internally. Return on asset was used by the researcher as a parameter of profitability. Lie (2005) demonstrated that profitability is an important determinant of dividend payout and came to the conclusion that companies which continuously report profits have higher chances of issuing dividends. During data collection the researcher noted that most local banks that declared high profits resulted in payment of dividends to their investors which also contributed to higher earnings per share. Velnampy and Nimalathasan (2008) examined the relationship between dividend payout ratio and profitability of commercial banks in Sri Lanka over a given period and noted that there was a positive relationship between profitability of the companies and dividend payout ratio.

Table 4.12: Regression Coefficients

	Coefficients	Std. Error	t	Sig
Constant	2.6811	1.97306	1.3589	0.0183

Levels of profit	1.33117	0.39661	3.35634	0.002

a. Dependent Variable: Dividend Payout

4.5.2 Liquidity and Dividend Payout

The study sought to establish whether dividend payout policy had a linear dependence on the independent parameters (liquidity). R squared value of 0.784 was established by the study. This depicts a very good linear association. It established an R-square value of 0.787 and adjusted to 0.784. The determination coefficient indicated that liquidity brought about 78.7%. This implies that bank size explains 78.7% of the variation in dividend payout, while the remaining 21.3% of the variation in the dependent variable was explained by other factors. The findings concur with Alli (2007) argued that dividend payments depend mostly on firm's liquidity from operations which reflect the company's ability to pay dividends. This implies that payment of dividends depends on liquidity.

Table 4.13: Model Summary of liquidity and Dividend payout

Model	R	R Square	Adjusted Square	RStd. Error of theDurbin-Watson Estimate	
1	.887[a]	.787	.784	3.79860	2.239

a. Predictors: (Constant), Dividend payout

From ANOVA in Table 4.14, there is a p-value of 0.000. The study concludes that there is a significant relationship between liquidity and dividend payout among commercial banks in Kenya. This implies that liquidity has a significant influence on dividend payout.

Table 4.14: ANOVA of Liquidity and Dividend Payout

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	3685.700	1	3685.700	26.908	.000[b]

Residual	995.624	37	14.429
Total	4681.324	38	

a. Dependent Variable: Dividend payout
b. Predictors: (Constant), Liquidity

From Table 4.15, the regression equation $Y = \beta_0 + \beta_2 X_2$) was rewritten as follows:

$Y = 15.776 + 0.517X_2$

Whereby: Y = dividend payout and X_2 = Liquidity

According to the regression equation established, taking liquidity constant at zero, the dividend payout will be 15.776. The data findings analyzed also shows that taking all other factors at zero, a 1 percent change in liquidity will lead to a 0.517 percent variation in dividend payout. The findings are in line Amidu (2007) noted that there was positive relationship between liquidity and dividend payout ratios in that the higher the liquidity the higher the dividend payment. The findings concur with Adil, et al. (2011) who attempted to identify the determinants of dividend payout of firms listed in Karachi Stock Exchange using operating liquidity as a determinant of dividend payout. They revealed that an increase in operating cash flow reduces the degree of dividend payout which portrays an inverse relationship.

DeAngelo and Skinner (2009) investigated the association between dividend payout policy and liquidity in the stock market. They concluded that there exists a negative relationship between dividends and stock market liquidity, interpreting this to mean that shareholders regard dividends and liquidity as substitutes. The above researches tend to contradict the findings of the study that there exists a positive relationship between liquidity and dividend payout.

Table 4.15: Regression Coefficients

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	15.776	2.224		7.094	.000
	Liquidity	.517	.032	.887	15.982	.000

a. Dependent Variable: Dividend payout

4.5.3 Bank Size and Dividend Payout

The research sought to establish the effect of bank size on dividend payout of commercial banks in Kenya. The results are shown in Table 4.16.

Table 4.16: Model Summary of Bank Size and Dividend Payout

Model	R	R Square	Adjusted Square	RStd. Error of the Estimate	Durbin-Watson
1	0.776[a]	0.602	0.590	7.79996	2.169

a. Predictors: (Constant), Bank size

The study sought to establish whether dividend payout had a linear dependence on the independent parameters (bank size). A determination coefficient r was 0.776 depicting a very good linear association. It established an R-square value of 0.602 and adjusted to 0.590. The determination coefficient indicated that bank size brought about 59.0%.

Table 4.17: ANOVA of Bank size and Dividend Payout

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	483.407	1	483.407	4.260	.006[b]
	Residual	4197.917	37	113.457		
	Total	4681.324	38			

a. Dependent Variable: Dividend payout
b. Predictors: (Constant), Bank Size

From ANOVA in Table 4.17, there is a p-value of 0.006. The study concludes that there is a significant relationship between bank size and dividend payout among commercial banks in Kenya. This implies that bank size has a significant influence on dividend payout. The study conducted a regression analysis so as to establish the influence of bank size on dividend payout. From Table 4.18, the regression equation $Y = \beta0 + \beta_3 X_3$) was rewritten as follows:

$Y = 34.562 + 0.246X_3$

Whereby: Y = Dividend payout and X_3 = Bank size

According to the regression equation established, taking bank size constant at zero, the dividend payout will be 34.562. The data findings analyzed also shows that taking all other factors at zero, a 1 percent change in bank size will lead to a 0.246 percent variation in dividend payout. Farsio (2008) investigated the factors affecting distribution of dividends in industrial sector in Brazil securities exchange market. The results portrayed that the magnitude of a company directly impacts on the dividend declared by management to be distributed to investors. Additional proof to support the assertion of the direct impact between magnitude of the company and dividend issuance was by Al Kuwari (2009) who examined micro finance institutions in Libyan capital market. He found out that the dividend payout was positively and directly related to firm size.

Mercado and Willey (2005) reviewed the agency costs of banking firms in United States and concluded that the major determinant with a positive significant relationship to the dividend yield was the size of the banks. This suggests that banks issue dividends as a way of controlling agency conflict. A previous study similar to the one carried out by the researcher was conducted by Kennedy and Nunnally (2006) who studied the dividend payout ratios of eighty large banking firms in United Kingdom. They used linear regression analysis in their research with the results

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showing that size of the banks was considered as an important variable in determining dividend payout. Various studies as shown above have shown that the relationship between size and dividend payout ratio can either be positive or negative. According to this study the findings agrees with the positive relationship as evidenced through data analysis.

Table 4.18: Regression Coefficients

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	34.562	5.757		6.004	.000
	Bank size	.246	.087	.321	2.819	.006

a. Dependent Variable: Dividend payout

4.5.4 Leverage and Dividend Payout

The study used Table 4.19 to establish whether leverage has a linear dependence on the independent parameters (dividend payout). A correlation value of 0.784 was established by the study. This depicts a very good linear association. It established an R-square value of 0.615 and adjusted to 0.609. The determination coefficient indicated that leverage brought about 60.9%.

Table 4.19: Model Summary of Leverage and Dividend payout

Model	R	R Square	Adjusted Square	RStd. Error of the Estimate	Durbin-Watson
1	.784ᵃ	.615	.609	5.11321	2.669

a. Predictors: (Constant), leverage

This implies that leverage has a significant influence on dividend payout.

Table 4.20: ANOVA of Leverage and Dividend Payout

Model	Sum of Squares	df	Mean Square	F	Sig.

1	Regression	2877.325	1	2877.325	59.014	.000[b]
	Residual	1803.999	37	48.756		
	Total	4681.324	38			

a. Dependent Variable: Dividend payout
b. Predictors: (Constant), Leverage

The study conducted a regression analysis so as to establish the influence of leverage on dividend payout.

From Table 4.21, the regression equation $Y = \beta_0 + \beta_4 X_4$) was rewritten as follows:

Y = 24.236 + 0.452X$_4$

Whereby: Y = Dividend payout and X_4 = leverage

The data findings analyzed also shows that taking all other factors at zero, a 1 percent change in leverage will lead to a 0.452 percent variation in dividend payout. The findings vary with Gupta and Walker (2011) who demonstrated that leverage and dividend policy payout had an inverse relationship. Ho (2006) examined the determinants of dividend payout of firms and noted that leverage was negatively associated with dividend.

Table 4.21: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	24.236	2.583		9.382	.000
	Leverage	.452	.043	.784	10.491	.000

a. Dependent Variable: Dividend Payout

4.5.5 Multiple Linear Regression

This section presents the results after performing a multiple regression analysis, regression analysis is a set of statistical process for estimating the relationships among variables.

The significance of the model was reaffirmed by the goodness of fit tests in Table 4.22, whereby the coefficient of determination (R square) of 0.797 confirmed that the model explained 89.3% of the variation or change in the dependent variables. The adjusted R square of 0.785 did not make a significant difference since the model now explained 78.5% of the variations. The coefficient of determination (R square) of 0.797 indicated that the model explained 79.7% of the variations in the dependent variable. This meant that the linear model was a good fit in explaining the relationship between the dependent and independent variables. A further 20.3% of enterprise growth is attributed to other factors not investigated in this study.

Table 4.22: Fitness Test for the Overall Model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.893(a)	0.797	0.785	0.57765

ANOVA: Analysis for the Overall Model

The ANOVA analysis in Table 4.23 presents the influence of all the independent variables on dividend payout among commercial bank in Kenya. The results presented a p-value of 0.000 which was less than 0.05. This indicated that the model was statistically significant in explaining the impact of the independent variables on dividend payout among commercial bank in Kenya. It is therefore concluded that the independent variables had significant combined effects on dividend payout among commercial bank in Kenya. The model was for the estimation of the contributions of the independent variables on dividend payout among commercial bank in Kenya.

Table 4.23: ANOVA for Multiple Regression

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	85.182	4	21.295	33.382	0.000(a)
	Residual	21.689	34	0.6379		
	Total	**106.871**	**38**			

The study conducted a multiple regression analysis and from the above regression model, holding (Bank size, liquidity, leverage, levels of profit) constant at zero, dividend payout in Kenya will be 1.147. A unit change in bank size will lead to 0.488 units change in dividend payout; also a unit change in levels of profit will lead to 0.269 units change in dividend payout. Further, a unit change in liquidity will lead to 0.384 units change in dividend payout and lastly a one unit change in leverage will lead to 0.221 units change in dividend payout. This shows that there is a positive relationship between (Bank size, liquidity, leverage, levels of profit) and dividend payout.

The results also show the unique contribution to the explaining of the independent variable. The standardized coefficients assess the contribution of each independent variable towards the prediction of the dependent variable, since they have been converted in the same scale to show comparison. The result indicates that bank size having the highest beta of 0.663 has the largest influence on dividend payout. The second most important variable was liquidity with a beta of 0.397. The third most important variable was levels of profit with a beta of 0.387. The least important predictor of these four variables is leverage with a beta of 0.192. The t-test statistic shows that all the B coefficients of Bank size, liquidity, leverage and levels of profit are significant (since $p < 0.05$).

From Table 4.24, the regression equation;

$Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$ was rewritten as follows:

$Y = 1.147 + 0.269X_1 + 0.384X_2 + 0.488X_3 + 0.221X_4$

Where Y= the dependent variable (Dividend policy payout), α - Is a constant and it's the Y value when all the predictor values (X_1, X_2, X_3 and X_4) are zero, β_1, β_2, β_3 and β_4 – Are constants regression coefficients representing the condition of the independent variables to the dependent variables. X_1= Levels of Profit; X_2 = liquidity; X_3 = Bank Size, X_4 = leverage and ε - (Extraneous) Error term explaining the variability as a result of other factors not accounted for.

Table 4.24: Multiple Regression Coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.147	3.93		2.915	0.000
Levels of Profit	0.269	0.135	0.387	1.991	0.003
Liquidity	0.384	0.106	0.397	3.608	0.001
Bank Size	0.488	0.255	0.663	1.908	0.001
Leverage	0.221	0.115	0.192	1.917	0.003

a Dependent Variable: Dividend payout

4.6 Hypotheses Testing

Hypothesis testing is a process by which the researcher infers the result of sample data on the larger population based on a presupposition made prior to commencement of research (Gourevitch, & James, 2005). The study performed hypothesis testing by determining statistical significance of the coefficients of explanatory variables. Test-of-significance method is meant to verify the truth or falsity of a null hypothesis by using sample results, showing that the means of two normally distributed populations are equal. This was done by using the corresponding *p*-

values at 1%, 5% and 10% levels. The decision to use a two-tailed test was based on the fact that the alternative hypothesis of the study is composite rather than directional (Martina, Tanya & Martin, 2014). This procedure was carried out against the null hypotheses enumerated in section 1.4 of chapter one. In all the tests, the decision rule was that: if the *p*-value observed is less than the set alpha (significance level), then reject the null hypothesis and if the observed *p*-value is greater than the set alpha, do not reject the null hypothesis.

(a) **H$_{01}$: Levels of profit has no significant influence on dividend payout policy of commercial banks in Kenya.**

The correlation analysis results in Table 4.7 show that levels of profits have significant and negative relationship with dividend payout policy of commercial banks in Kenya at 5% level. This is based on the *p*-values corresponding to the coefficients equivalent to 0.003. This finding led the study rejected the stated null hypothesis with 95% confidence level and concluded that levels of profits significantly influence dividend payout policy of commercial banks in Kenya. Profitability has long been considered as the most determinants of a firm's ability to pay dividends. We used ROA as proxy for profitability. By the same way, Zaman, Yahya and Hadi (2013) have pointed out that the dividend payment pattern of a firm is affected by the ROA.

(b) **H$_{02}$: Liquidity has no significant influence on dividend payout policy of commercial banks in Kenya.**

The correlation analysis results in Table 4.24 show that liquidity has significant and positive relationship with dividend payout policy of commercial banks in Kenya at 5% level. This is based on the *p*-values corresponding to the coefficients equivalent to 0.001. This finding led the study rejected the stated null hypothesis with 95% confidence level and concluded that liquidity

significantly influence dividend payout policy of commercial banks in Kenya. Liquidity is one of the important factors that can affect the decision or behavior of the dividend policy. Cash and Cash Equivalent over Net Total Assets is used as proxies of liquidity. These are also used by Kapoor et al., 2008; Ahmed & Javid, 2009). According to the signaling theory, firms with higher cash accessibility are able to pay higher dividends than firms with insufficient cash (Ho, 2003). Furthermore, according to the agency theory of cash flow, Jensen (1986) argued that firms with high cash flows pay higher dividends in order to diminish the agency conflict between their managers and shareholders.

(c) **H_{03}: Bank size has no significant influence on dividend payout policy of commercial banks in Kenya.**

The regression analysis results in Table 4.6 show that bank size has significant and positive relationship with dividend payout policy at 5% level of significance. This is based on the *p*-value corresponding to the coefficients equivalent to 0.001. This finding led the study to reject the stated null hypothesis with 95% confidence level. By rejecting the null hypothesis, the study concluded that bank size significantly influences on dividend payout policy of commercial banks in Kenya.

This study finding is in line with Lloyd and Jahera (1985) concluded that larger firms become less dependent on internal funds which allow them to pay higher dividends. Juhmani (2009) studied sample consist of 35 Bahraini companies listed in Bahrain Stock Exchange from 2006 to 2007; he used descriptive and statistical analysis. He revealed that dividend payout has significant relationship with size of Bahraini companies, profitability and change in previous year dividends listed in Bahrain Stock Exchange. A study conducted by Reddy and Rath (2005)

on Indian corporate firms in an emerging market during 1991 to 2001 found that firms that pay dividend are likely to be larger and more profitable than nonpaying firms.

The size of the firm is a major factor which can affect the firms' dividend policy. The size of the bank is measured by the natural logarithm of total assets as used by Gill et al. (2009) and is included to account for size variability. Large companies tend to be more competitive, with access to capital, better credit rating, and more customers, which will enhance their profitability and increase their ability to pay higher dividends (Dickens et al., 2002).

H_{04}: Leverage has no significant influence on dividend payout policy of commercial banks in Kenya.

The correlation analysis results in Table 4.7 show that leverage had an insignificant negative relationship with dividend payout policy of commercial banks in Kenya at 5% level. This is based on the *p*-values corresponding to the coefficients equivalent to 0.003. This finding led the study to fail to reject the stated null hypothesis with 95% confidence level and concluded that leverage has a significant influence on dividend payout policy of commercial banks in Kenya. The leverage has been used as a proxy of debt ratio in this study which is used by (Zaman et al., 2013). The ratio is calculated total liability to total asset for banks. Because leverage is a very important variable for the determinants of dividend behavior, if the level of the leverage is high its mean the firm is more risky in the cash flows. Long-term debt had negative impact on the amount of dividend paid. As usually the firms with higher leverage paid lower dividends in order to evade the cost of raising external capital of the firm.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the findings of the study. The study sought to investigate the financial determinants of dividend payout policy among commercial banks in Kenya. The chapter draws conclusions from the findings and makes recommendations on financial determinants in Kenya can improve and increase dividend policy payout. The summary of the findings, the conclusion and the recommendations are presented per each specific objective. Finally, the chapter proposes areas for further research.

5.2 Summary of Findings

This section summarizes the findings of the study on the basis of the specific research objectives of the study.

5.2.1 Levels of Profits and Dividend Payout

Descriptive statistics was used to analyze this research objective and other subsequent analysis was done. The results showed that for the periods under study (2013-2017), the profitability of commercial banks in Kenya had a mean profitability as measured by ROE for the five years being 0.340. This indicated that commercial banks were efficient at converting their investments into profits. This indicated that every Ksh of common shareholders' equity earned about Kshs 0.34 billion and deviated by Kshs .04 billion in the period under study. Inferential statistical methods were used to arrive at the findings where deductions and relationships were established. Correlation analysis indicated that levels of profits and dividend policy payout were positively and significantly correlated. Regression analysis indicated that holding other factors constant, a

unit increase in profitability led to -.104047 units decrease in dividend payout. The P-value was greater than the significance level of 0.05 indicating that the relationship was statistically significant.

5.2.2 Liquidity and Dividend Payout

Descriptive statistics was used to analyze this research objective and other subsequent analysis was done. The results indicate that commercial banks in Tier 1 recorded the highest mean value of 0.3434553 during the period under study, followed by banks in tier 3 and 2 with mean values of 0.3360333 and 0.3178857 respectively.

Inferential statistical methods were used to arrive at the findings where deductions and relationships were established. Correlation analysis indicated that liquidity and dividend policy payout were positively and significantly correlated. Regression analysis indicated that holding other factors constant, a unit increase in liquidity led to 0.2516094 units increase in dividend payout. The P-value was less than the significance level of 0.05 indicating that the relationship was statistically significant.

5.2.3 Bank Size and Dividend Payout

Descriptive statistics was used to analyze this research objective and other subsequent analysis was done. The results showed that size of the bank was measured by a natural logarithm of individual banks' total assets, according to the results total banks assets averaged kshs 0.345 Billion. Inferential statistical methods were used to arrive at the findings where deductions and relationships were established. Correlation analysis indicated that bank size and dividend policy payout was positively and significantly correlated. Regression analysis indicated that holding other factors constant, a unit increase in bank size led to 0. 5539168 units increase in dividend

payout. The P-value was less than the significance level of 0.05 indicating that the relationship was statistically significant.

5.2.4 Leverage and Dividend Payout

Descriptive statistics was used to analyze this research objective and other subsequent analysis was done. The results indicated that commercial banks in Tier 3 recorded the highest mean value of 0.4360333 during the period under study, followed by banks in tier 1 and 2 with mean values of 0.4329333 and 0.4178857 respectively. Inferential statistical methods were used to arrive at the findings where deductions and relationships were established. Correlation analysis indicated that leverage and dividend policy payout was positively and significantly correlated. Regression analysis indicated that holding other factors constant dividend payout would be -0.0149406, a unit increase in leverage led to 0.0149406 units decrease in dividend payout. The P-value was greater than the significance level of 0.05 indicating that the relationship was statistically insignificant.

5.3 Conclusion

This study attempted to investigate the financial determinants of dividend payout policy among commercial banks in Kenya. Both random and fixed model were run on a sample of 38 commercial banks in Kenya for the period of ten years from 2008 to 2017. The banks selected factors included in the study were Leverage, Firm Size, Liquidity and Profitability. While testing the impact of the four independent variables on the dividend payout ratio. The study concluded that only three factors explain the dividend payout policy. The result indicated that level of profits; bank size and liquidity are the most important variables in predicating future dividend payment behavior. Leverage did not explain dividend payout policy.

This finding of the first hypothesis tested led the study to reject the stated null hypothesis with 95% confidence level. By rejecting the null hypothesis, the study concluded that bank size significantly influences on dividend payout policy of commercial banks in Kenya. In addition, the This finding of the second hypothesis led the study to fail to reject the stated null hypothesis with 95% confidence level and concluded that leverage has a insignificant influence on dividend payout policy of commercial banks in Kenya.

For the third hypothesis, the findings led the study rejected the stated null hypothesis with 95% confidence level and concluded that levels of profits significantly influence dividend payout policy of commercial banks in Kenya. Profitability has long been considered as the most determinants of a firm's ability to pay dividends. Finally, based on the fourth hypothesis tested the finding led the study rejected the stated null hypothesis with 95% confidence level and concluded that liquidity significantly influence dividend payout policy of commercial banks in Kenya. The study concluded further that, Liquidity is one of the important factors that can affect the decision or behavior of the dividend policy.

5.4 Recommendations

Based on the findings and conclusions, the study makes a number of recommendations; the study findings revealed that there was positive and significant between levels of profit and dividend. The study recommends that, banks should work towards improving their profit levels to facilitate dividend payout policy. Based on the findings, Liquidity was found to have positive and significant effects on dividend payout. The study therefore recommends that, bank managers should ensure they are able to fulfill both expected and unexpected demands of cash on an ongoing basis. In order for a bank to sustain its activities and remain in existence for a long time, it must be liquid and able to meet its obligations at any time. Working capital management is

crucial to any successful business. With poor management of working capital, the firm's funds are likely to be tied up in idle assets. This may reduce the firm's liquidity and the firm will not be able to pay dividends.

Since the firm size was found to have a positive and significant effect on dividend payout, bank managers should work towards the growth of the banks, when a firm becomes larger, and its operational activities are more efficient. Hence, larger banks generate larger returns on assets. However, larger banks can be less efficient if the top management lose their control over strategic and operational activities within the firm. Finally, Leverage was found to have insignificant effect on dividend policy payout among banks in Kenya. The study therefore recommends that the commercial banks should focus on improving the variables which indicated positive and significant effects while minoring on leverage.

5.5 Suggestion for Further Study

This study focused on the financial determinants of dividend policy payout among commercial banks in Kenya. The study used the variables which included; bank size, liquidity, level of profits and leverage levels. The study mainly focused on commercial banks in Kenya, it is therefore recommended that more research be carried out on the same topic by considering other financial institutions which are not necessarily under the category of commercial banks so that the results obtained can be compared with the findings of this study. This study adopted descriptive research design; more studies should be conducted using different research designs such as survey design, mixed methods design, explanatory research design etc.in the same area of research so as to compare the results with the findings of the current study.

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APPENDICES

Appendix I: Secondary Data Collection Sheet

Name of the institution…………………………………………………………………….

	2012/13	**2013/14**	**2014/15**	**2015/16**	**2016/17**
Net income					
Equity					
Return on Equity					
Fixed assets					
Total assets					
Current assets					
Current liabilities					
Total companies liabilities					
Total companies assets					
Total Dividend paid					
Net income					

Appendix II: Commercial Banks in Kenya

Tier 1	
1.	Co-operative Bank of Kenya
2.	Kenya Commercial Bank(KCB)
3.	Equity Bank
4.	Barclays Bank
5.	Commercial Bank of Africa(CBA)
6.	Standard Chartered Bank
Tier 2	
7.	Family Bank
8.	I&M Bank
9.	NIC Bank
10.	Diamond Trust Bank
11.	Bank of Africa
12.	Housing Finance
13.	Ecobank
14.	Prime Bank
15.	Bank of Baroda
16.	CFC Stanbic Bank
17.	Citibank
18.	Guaranty Trust Bank
19.	National Bank
20.	Bank of India
Tier 3	
21.	Jamii Bora Bank
22.	ABC Bank
23.	Credit Bank
24.	Paramount Universal
25.	Consolidated and Development Bank
26.	Fidelity Bank
27.	Equatorial Commercial Bank
28.	Giro Bank
29.	Guardian Bank
30.	Middle East Bank
31.	Oriental Commercial Bank
32.	Paramount Universal Bank
33.	Trans-National Bank
34.	Victoria Bank
35.	First Community Bank
36.	Habib A.G Zurich Bank
37.	Habib Bank
38.	Gulf Africa
39.	Sidian Bank

40.	UBA Bank
41.	Consolidated Bank
42.	Development Bank

Source: Central bank of Kenya (2015)

Appendix III: Research Permit

THIS IS TO CERTIFY THAT:
MS. ANGELINA NYACHOL TUT
of KENYA METHODIST UNIVERSITY,
267-60202 MERU,has been permitted to
conduct research in *Nairobi County*

on the topic: *FINANCIAL
DETERMINANTS OF DIVIDEND POLICY
PAYOUT AMONG COMMERCIAL BANKS IN
KENYA.*

for the period ending:
7th August,2019

Permit No : NACOSTI/P/18/57577/24595
Date Of Issue : 7th August,2018
Fee Recieved :Ksh 2000

....
Applicant's
Signature

....
Director General
National Commission for Science,
Technology & Innovation

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Appendix IV: Research Authorization Letter

NATIONAL COMMISSION FOR SCIENCE,
TECHNOLOGY AND INNOVATION

Telephone: +254-20-2213471,
2241349,3310571,2219420
Fax:+254-20-318245,318249
Email: dg@nacosti.go.ke
Website : www.nacosti.go.ke
When replying please quote

NACOSTI, Upper Kabete
Off Waiyaki Way
P.O. Box 30623-00100
NAIROBI-KENYA

Ref No: **NACOSTI/P/18/57577/24595**

Date: **7ᵗʰ August, 2018**

Angelina Nyachol Tut
Kenya Methodist University
P.O. Box 267 – 60200
MERU

RE: RESEARCH AUTHORIZATION

Following your application for authority to carry out research on *"Financial determinants of dividend policy payout among commercial banks in Kenya"* I am pleased to inform you that you have been authorized to undertake research in **Nairobi County** for the period ending **7ᵗʰ August, 2019.**

You are advised to report to **the County Commissioner and the County Director of Education, Nairobi County** before embarking on the research project.

Kindly note that, as an applicant who has been licensed under the Science, Technology and Innovation Act, 2013 to conduct research in Kenya, you shall deposit **a copy** of the final research report to the Commission within **one year** of completion. The soft copy of the same should be submitted through the Online Research Information System.

DR. STEPHEN K. KIBIRU, PhD.
FOR: DIRECTOR-GENERAL/CEO

Copy to:

The County Commissioner
Nairobi County.

The County Director of Education
Nairobi County.

Appendix V: Stationarity Test Results

Table 4.25: Panel Unit Root Test Statistics

Variable			Statistic	p-value
Leverage	Inverse chi-squared(76)	P	374.2763	0.000
	Inverse normal	Z	-6.2990	0.000
	Inverse logit t(194)	L*	-13.4866	0.000
	Modified inv. chi-squared	Pm	24.1934	0.000
Liquidity	Inverse chi-squared(76)	P	161.1982	0.000
	Inverse normal	Z	-1.9086	0.0282
	Inverse logit t(194)	L*	-3.6235	0.000
	Modified inv. chi-squared	Pm	6.9105	0.000
Bank size	Inverse chi-squared(78)	P	359.4162	0.000
	Inverse normal	Z	-5.2817	0.000
	Inverse logit t(194)	L*	-12.4608	0.000
	Modified inv. chi-squared	Pm	22.9881	0.000
Dividend payout	Inverse chi-squared(76)	P	551.3648	0.000
	Inverse normal	Z	-10.4499	0.000
	Inverse logit t(194)	L*	-22.4216	0.000
	Modified inv. chi-squared	Pm	38.5572	0.000
Profitability	Inverse chi-squared(76)	P	417.3418	0.000
	Inverse normal	Z	-6.7828	0.000
	Inverse logit t(194)	L*	-15.4108	0.000
	Modified inv. chi-squared	Pm	27.6865	0.000