INTERNATIONAL JOURNAL OF
RESEARCH AND CURRENT DEVELOPMENT
Available Online at http://www.journalijrcd.com
VOL. 2, ISSUE, 2, PP.86-93, FEBRUARY, 2017

IJRCD

ISSN: XXX-XXXX RESEARCH ARTICLE

DETERMINANTS OF DIVIDEND PAYOUT RATIO FOR PROFITABLE NON- FINANCIAL COMPANIES LISTED IN NAIROBI SECURITIES EXCHANGE; KENYA

Nguri, James Mwathi and Jagongo, Ambrose Ouma

Department of Accounting and Finance, School of Business, Kenyatta University
P.O. Box 43844 (00100) Nairobi, Kenya

ARTICLE INFO

Article History:
Received 20th November, 2016
Received in revised form 19th December, 2016
Accepted 24th January, 2017
Published online 28th February, 2017

Keywords:

Determinants, dividend payout ratio and dividend policy

ABSTRACT

Every investor in any company aims at maximizing on their investment. This is usually achieved in form of dividends, capital growth or both. Dividend is the proportion of profit that is distributed to the owners of capital funds either in cash or as a bonus shares. The dividend policy determines what proportion or earnings are distributed to shareholders as dividend and the proportion to be ploughed back. Over decades, there have been controversial issues on dividend policy and no universally acceptable explanation on dividend policy has been reached. Many studies done identified profitability and liquidity among the key determinants of dividends payouts decisions for companies listed in Nairobi Securities Exchange (NSE). The objective of this study was to examine determinants of dividend payout ratio (DPR) among the profitable non financial companies in NSE. Twenty profitable non financial companies that were in operation from 2001 to 2010 were selected using purposive sampling. Secondary data of these companies was obtained from NSE, and firm websites. The relationship between the dividend payout ratio and independent factors; size of the firm, business risk, leverage, growth opportunities, tax and earnings were determined. Multiple regression models were used to determine if there exist a significant relationship between the dependent and independent variables. The regression model indicated that leverage, growth, and size of the firm are the major determinants of Dividend payout ratio. The result also identified that leverage and growth have a negative impact on DPR while earnings have a positive impact.

INTRODUCTION

Background of the Study

The development of dividend payments to shareholders has been tied up with the development of the corporate form itself. Corporate managers realized early the importance of dividend payments in satisfying shareholders expectations. They often smoothed dividends over time with the perception that dividend reductions might have unfavorable effects on share price and therefore, used dividends as a device to signal information to the market. Enhancing shareholders' wealth and profit making are among the major objectives of a firm (Pandey, 2005). The increase of the firm ability to pay the dividend is determined by the firm liquidity (Wasike & Ambrose, 2015). Firm performance in this case can be viewed as how well a firm enhances its shareholders' wealth and the capability of a firm to generate earnings from the capital invested by shareholders. Dividend policy can affect the value of the firm and in turn, the wealth of shareholders (Baker *et al*., 2001). Among the requirements that companies that want to be listed in the Nairobi Securities Exchange must fulfill, is that they should have a clear future dividend policy (Kenya Gazette Legal Notice No 60 May, 2002). This makes dividend policy worthy of serious management attention. The effect of dividend policy on firm value and other issues of corporate dividend policy have been subjected to a great debate among finance scholars including (Modigliani, Miller, Gordon, Lintner and Fama, Stulz, 2000). Profits have long been regarded as the primary indicator of a firm's capacity to pay dividends. In other studies, (Rozeff, 1982, Lloyd *et al,* 1985) used beta value of a firm as an indicator of its market risk. (D'Souza, 1999) also finds statistically significant and negative relationship between beta and dividend payout.

Their findings suggest that firms having a higher level of market risk will pay out dividends at lower rate. The liquidity or cash-flow position is also regarded as an important determinant of dividend payouts. A poor liquidity position means less generous dividend due to shortage of cash. They claim current earnings do not really reflect the firm's ability to pay dividends. According to a study done by (Amidu, 2007), in Ghana, it showed that firms were influenced by the profitability, cash flow position, growth prospects and investment opportunities of the firms. Similarly, in a study done by (Al-Kuwari, 2002), on Gulf Co- operation Council Country stock exchanges indicates that dividend payments related strongly to firm profitability, firm size, government ownership and the leverage ratio. From the studies done on

***✉ *Corresponding author:* Nguri**
Department of Accounting and Finance, School of Business, Kenyatta University

determinants of dividend payments, it is clear that most of the findings show that profits or earnings of a firm are a major factor. It was also observed that cash and debt to equity does not influence dividend policy of companies (Soondur et.al, 2016) According to (Lintner, 1956), several interesting patterns are observed in the dividend policies of firms in the United States in the past fifty years. Firstly, dividends tend to lag behind earnings; that is, increases in earnings are followed by increases in dividends, and decreases in earnings sometimes by dividend cuts. Secondly, dividends are "sticky" because firms are typically reluctant to change dividends; in particular, firms avoid cutting dividends even when earnings drop. Third, dividends tend to follow a much smoother path than do earnings. Finally, there are distinct differences in dividend policy over the life cycle of a firm, resulting from changes in growth rates, cash flows, and project availability. Lintner in studying the way firms set dividends noted three consistent patterns. First, firms set target dividend payout ratios by deciding on the fraction of earnings they are willing to pay out as dividends in the long term. Second, they change dividends to match long term and sustainable shifts in earnings, but they increase dividends. Because firms avoid cutting dividends, dividends lag earnings. Finally managers are much more concerned about changes in dividends than about levels of dividends. (Fama and French**,** 2001) identified a lag between earnings and dividends by regressing changes in dividends against changes in earnings in both current and prior periods. They confirmed Lintner's findings that dividend changes tend to follow earnings change. Firms generally do not change their dollar dividends frequently.

According to (Wasike and Ambrose, 2015), profitability of a company has a positive relationship with the dividend policy. According to (Al-Malkawi, 2007) dividend payment affects the value of the firm which supports the dividend relevant theory. (Maniagi, *et al*., 2013), found that current earnings, profitability, growth opportunities, firm size and business risk are the main determinants of dividend payout for non-financial firms on NSE. This research therefore sought to find out which factors are of importance in determination of DPR for profitable non-financial companies listed in NSE.

Statement of the problem

It is not clear which factors guide the dividend payout ratio for profitable companies as earnings do not solely determine the dividend policy of firms. Explaining dividend policy has been a most difficult challenge facing financial economists. Despite the decades of study in this area, it is yet to be understood the factors that influence dividend policy and the manner in which these factors interact. Profitability has always been considered as a primary indicator of dividend payout though there has been emerging consensus that there is no single explanation of dividend payout. The link between dividend and earnings has weakened over time where highly profitable firms do not necessarily pay as high dividends compared to companies earning relatively low profits.

When a company reports earnings, investors expect dividends to be paid in proportion to the level of earnings and therefore a rise in profits should result to a rise in dividends paid. However, this is not always the case as firms do not always adjust their dividend payout rates according to the earnings realized. In particular, more profitable companies are able to pay higher dividends but are reluctant to increase their dividends in proportion to the increase in their earnings hence dividends are sticky. This shows that there are other factors that determine the dividend payout ratio for profitable companies other than profitability. Past research done has not adequately addressed the problem of slow adjustment of dividends to changes in earnings. It is important to find out which other factors profitable firms consider when making the dividend payout decision and the significance of these factors. Hence this research sought to establish the determinants of dividend payout ratio for profitable non-financial companies listed in Nairobi Securities Exchange.

Purpose of the study

The major objective of this study was to examine the critical factors that determine the dividend payout ratio for profitable non-financial companies listed in Nairobi Securities Exchange and also establish the relationship between dividend payout ratio and the value of the firm.

Research objective

General objective

The general objective of this research was to establish the determinants of dividend payout ratio for profitable non-financial companies listed in Nairobi Securities Exchange.

Specific objectives

1. To examine the effect of firm size, risk, leverage, firm growth, taxation and earnings on the dividend payout ratio of profitable non-financial companies listed in Nairobi Securities Exchange.
2. To establish the relationship between dividend per share and earnings per share of profitable non-financial companies listed in the Nairobi Securities Exchange.
3. To establish the relationship between dividend payout ratio and firm value of profitable non-financial companies listed in Nairobi Securities Exchange.

Research Hypothesis

The following null hypotheses were developed for this study;

1. There is no significant relationship between dividend payout ratio and firm size, risk, leverage, firm growth, taxation and returns on earnings of profitable non-financial companies listed in Nairobi Securities Exchange.
2. There is no significant relationship between dividend per share and earnings per share of profitable non-financial companies listed in Nairobi Securities Exchange.
3. There is no significant relationship between dividend payout ratio and firm value of profitable non– financial

companies listed in Nairobi Securities Exchange

Significance of the study

This study aims to provide information about determinants of dividend payout ratio for profitable firms. First this is important to firms for decision support, re-evaluation and policy making. Secondly, the information will be useful to investors. Thirdly, it will add to the body of knowledge since it is looking at the context of a profitable firm in a developing country, an area that has limited literature.

LITERATURE REVIEW

Introduction

This chapter looks at the dividend policy in general, lays out the theoretical and the empirical review of determinants of dividend payout ratio.

Theoretical review

The development of dividend payments to shareholders has been tied up with the development of the corporate form itself. Corporate managers realized early the importance of dividend payments in satisfying shareholders expectations. They often smoothed dividends over time to ascertain if dividend reductions might have unfavorable effects on share price and therefore, used dividends as a device to signal information to the market. Moreover, dividend policy is believed to have an impact on share price. Dividend policies assist to resolve a firm's attempt to maintain a steady, stable dividend growth pattern or vary dividend payment from period to period and from year to year depending on the cash flows and the financing requirements (Pandey, 2005). Firms design dividend policies that enable them achieve their various goals. The main approaches that influence the amount of dividends to pay includes; Residual policy in which companies using the residual dividend policy choose to rely on internally generated equity to finance any new projects. The policy states that dividends should only be paid out of free cash flows. The justification of the policy is that investors would prefer to have the firm retain and re- invest earnings rather than pay them out as dividend so long as the return earned on the re-invested earnings exceed their required rate of return. These companies usually attempt to maintain balance in their debt/equity ratios before making any dividend distributions, which demonstrates that such a company decides upon dividends only if there is enough money left over after all operating and expansion expenses are met. According to this policy, dividend would therefore fluctuate from period to period. This however, would create uncertainty to investors and may increase the cost of capital.

The second consideration is the constant pay-out policy which involves payment of a certain constant percentage of earnings to the shareholders in each dividend period. Earnings fluctuate from period to period and, thus, this policy imply that dividend per share will also fluctuate. The problem with the policy is that if the firm's earnings drop or if a loss occurs in a given period, the dividends may be low or even nonexistent and would cause uncertainty to the investors.

Thirdly is the stable or predictable policy which involves payment of a specific amount of dividend per share each year or periodically increasing the dividends at a constant rate. This makes dividends predictable by investors and reduces uncertainty on the future dividends. Most firms prefer reasonably stable dividends policies. If management is convinced that the new level of earnings is permanent, then, an increase in the amount of dividends can be made. Fourthly, low regular plus extra policy which involves payment of low regular dividends plus year end extras in good years. The policy gives a firm flexibility as it can set the low regular dividends at levels which can be sustained even in loss making years. By establishing a low regular dividend that is paid each period, the firm gives investors the stable income necessary to build confidence in the firm while the extra dividend permits them to share in the earnings from an especially good period. Investors are however assured of receiving at least minimal dividends, hence, reduced uncertainty.

Empirical review

A number of factors have been identified in empirical studies that influence dividend payout ratio of the firm. To, enumerate a few, profitability, business risk, free cash flows, agency cost, growth, taxes, price earnings ratio among others. However it is reported that there is a significant difference in dividend payout between developing and developed economies. (Glen *et al,* 1995), shows that dividend payout in developing countries is two-thirds that of developed countries. Also, emerging markets do not follow a stable dividend policy; dividend payment of a particular year is based on the profitability of that year.

The dividend signaling theory postulates that dividends convey information about current and future levels of earnings to the market. Business risk is the uncertainty of current and future profitability. Greater business risk makes the expected direct relationship between current and future profitability less certain, hence the negative relationship between dividend risk and dividend payout.

This is in accordance with (Pruitt and Gitman, 1991) who found a firm that has relatively stable earnings is often more likely to pay a higher percentage of its earnings than firm with fluctuating earnings. High risk firms tend to have a higher volatility in their cash flows, than low-risk firms. Consequently, the external financing requirement of such firms will increase, driving them to reduce the dividend payout to avoid costly external financing Growth opportunities: Firms' motives for paying dividends and extent to which dividends are determined are dependent of investment policy. (Higgins, 1981) indicates a direct link between growth and financing needs: rapidly growing firms have external financing needs because working capital needs normally exceed the incremental cash flows from new sales. He shows that payout ratios are negatively related to firms' need to fund finance growth opportunities.

Financial Leverage: A growing number of studies have found

that the level of financial leverage negatively affects dividend policy. In (Jensen *et al.,* 1992) their studies inferred that highly levered firms look forward to maintaining their internal cash flow to fulfill duties, instead of distributing available cash to shareholders and protect their creditors.

Thus, firms with high leverage ratios have high transaction costs, and are in a weak position to pay higher dividends to avoid the cost of external financing. (Fama and French, 2001) indicated that large firms distribute a higher amount of their net profits as cash dividends, than do small firms. (Fama and French, 2001) suggest that large US firms pay a higher proportion of their earnings because of their lower earnings volatility.

Researchers have different views about whether dividend payout materially affects the long term share prices. (Dhanani, 2005) who used a survey approach to capture managerial views and attitudes of corporate managers regarding dividend policy found that dividend policy serves to enhance corporate market value. However, (Farsio *et al*., 2004) argues that empirical studies that conclude a causal relationship exists between earnings and dividends are based on short periods of time and are therefore misleading to potential investors. Therefore, dividends have no explanatory power to predict future earnings.

Researchers have proposed many different theories about the factors that influence a firm's dividend policy. Dividends mitigate information asymmetry between management and shareholders by conveying private information about a firm's future prospects called signaling explanation of dividends (Bhattacharya, 1997). Agency theory argues that dividends help to reduce the agency costs associated with the separation of ownership and control (Rozeff, 1982). Life-cycle theory postulates dividend policy tends to follow a firm's life-cycle and reflects management's assessment of the importance of market imperfections including taxes to equity-holders, agency costs, asymmetric information, flotation costs, and transactions costs (Fama and French, 2001). Catering theory argues that managers give investors what they currently want, that is, they cater to investor demand by paying dividends when investors put a stock price premium on payers, and by not paying when investors prefer non payers (Baker, 2001).

Dividend signaling theory suggests that dividend announcements convey information on the firm's future prospects by stimulating changes in share prices which further generate returns to the shareholders. A dividend increase is usually seen by the market as conveying good news meaning that the company has favorable prospects. The reverse is true (Al-Kuwari, 2009). Fuller and complete information about the dividend increase could however reverse these perceptions of the investors as a dividend increase could be due to a shortage of attractive investments, implying that the growth prospects for the company and its dividends are poor. Dividends decrease maybe a positive sign for investors, indicating an abundance of attractive projects and hence good prospects of dividend payments in future. A company wanting to cut its dividend for reasons of financial prudence often faces a significant decrease in its share price. In other words, we refer this as the "information content of dividend" as suggested by Miller and Modigliani. According to Miller and Modigliani, a company's value is determined by its expected future earnings and not on current earnings. If dividends are dependent on the permanent component of the earnings, dividends would serve as a surrogate for expected future earnings (Stulz, 2000).

The classic study on dividend signaling suggests that current dividend is dependent on future as well as current and past earnings (Lintner, 1962). Although changes in dividends do contain some information to the investors, dividend signaling is not universally applied to all firms. The study showed that changes in earnings will affect dividend payout and managers rarely change their dividend payout in order to achieve the target payout ratio. Miller argued it was not so much the direction of a dividend change that mattered, but more the difference between the actual dividend payment and the market's expectations on what the dividend would be (Stulz, 2000).

While early scholars suggested that firms use changes in dividends to convey information on the firms' financial prospects to the investors, some argued that firms rarely change their dividends regardless of the earnings of the firm. The reasons of such sticky dividend can be explained by two factors: - Concern of firms in maintaining higher dividends in the future; and negative views on dividend decrease, which is associated with decrease in share price.

In Kenya dividends are taxed at 5% as a final tax for individuals while capital gains tax are tax exempt (Income Tax Act, 2010). Firms that meet the needs of individual investors are more likely to be able to command a higher share price premium and thus an enhanced firm value. However, (Amidu, 2007) argues that, if investors migrate to firms that pay the dividends that most closely match their needs, no firm's value should be affected by its dividend policy. The dividend payout ratio was also used in this research for two reasons. Firstly, the dividend payout ratio takes into consideration both dividend payout and dividend retention, hence this will show the relationship between the dividend payout and the amount of cash retained in the business. Secondly, dividend payout ratio takes into account the dividend paid in relation to the income level.

The independent variable earnings per share is anticipated to have an influence on dividend per share. Dividend payout ratio is considered to have an influence on firm value and in this case, dividend payout ratio is an independent variable.

Empirical Gap

Major literature review revealed that profitability has highly been considered as the primary determinant of the dividend payout rate. It is important to find out which other factors profitable firms consider when making the dividend payout decision and the significance of these factors. It also revealed that dividends tend to follow earnings but on a smoother path and that dividend payout has an influence on firm value.

Extensive research done in this area of dividend policy is on

dividends implication on the firm's value, that is, the relevance of dividends. However, such extensive research lacks in the factors or the determinants of dividend payout ratio. Researchers have primarily focused on developed markets. However, additional insight into the dividend policy debate needs to be gained by an examination of developing countries like Kenya. This is because dividend policy in emerging markets is often different in its nature, characteristics and efficiency from that of developed economies. Similarly, research that segregates profitable firms from other firms is lacking in literature. Since these profitable firms have consistent earnings, they have the capacity to pay high and increasing dividends. There is need to explore other factors which profitable firms consider in setting a DPR other than the earnings.

RESEARCH METHODOLOGY

Introduction

This chapter discusses the methodological approach used by the researcher and also the research design used for the purpose of this study.

Research design

In this study a causal research design was used to first, explore the relationship between dividend payout ratio and firm size, risk, leverage, firm growth, taxation and earnings, secondly, the relationship between dividend per share and earnings per share and thirdly, the relationship between dividend payout ratio and firm value. It involved analysis of secondary data from NSE handbooks for the selected firms for the recent ten year period from 2001 to 2010. Regression analysis was carried out to establish the relationship between dividend payout and firm size, risk, leverage, firm growth, taxation and returns on earnings.

Target population

The population consisted of the profitable firms in the NSE. The population size was twenty companies that had consistent and positive ROE in the recent ten years from 2001 to 2010. Panel data was used for this study, which included two hundred observations.

Data collection

Secondary data was derived from financial statements of the listed companies at NSE for the ten years from 2001 to 2010 from the NSE library. Since the firms publish their annual financial statements and other financial information, the researcher got access to this information with ease from the published financial statements.

Data analysis and presentation

Statistical technique of multiple linear regression analysis was used to explore the relationship of firm size, risk, leverage, firm growth, taxation and earnings on dividend payout ratio.. Regression output tables were used to present the results obtained for the six independent variables. Pearson correlation analysis was done to establish the relationship between earnings per share and dividend per share and also the relationship between dividend payout ratio and the value of firm. The correlation coefficient obtained was used to point out the relationship between the two variables.

Graphical representation of earnings and dividends for the NSE listed profitable firms was used to show the lag between earnings and dividends.

Dividend payout per share= $\beta_0 + \beta_1$ SIZE + β_2 BETA + β_3 LEV + β_4 GROW + β_5 TAX+ β_6 ROE + ε

Data Presentation and Analysis

Introduction

This chapter gives an extensive discussion of the findings of the study. A total of twenty profitable firms were analyzed for the purpose of this study mainly to establish the determinants of dividend payout ratio in profitable non-financial companies listed in NSE. A regression analysis on six pre-specified independent variables was done; on earnings, firm size, leverage, risk, taxation and growth. The researcher also shows the correlation between earnings per share and dividend per share based on findings for the correlation analysis carried out and presents graphs for profitable companies listed in the NSE to show the relationship between earnings and dividends. Finally the chapter presents the relationship between DPR and firm value which was based on evidence from correlation analysis of DPR and firm size.

Regression Analysis

Table 1 Correlation matrix

	Size	Risk	Leverage	Growth	Tax	ROE
DPR Predictor variable	.074	.062	-.259	-.144	.017	.080
1. Size		-.109	.337	-.043	**.918**	**.580**
2. Risk			-.203	-.110	-.086	-.071
3. Leverage				.170	.343	.151
4. Growth					-.036	.009
5. Tax						.621
6. Roe						

Table 2 Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.654[a]	.528	.482	7.59632

Predictors: (Constant), ROE, GROWTH, RISK, LEVERAGE, SIZE, TAX

Table 3 ANOVA

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	28966.726	6	4827.788	13.416	.003[a]
Residual	216262.932	153	1413.483		
Total	245229.658	159			

The standardized beta coefficients show the factor weights or the size effects of the various predictor variables on DPR.

From the analysis, it was observed that there is a significant influence of the leverage that was found to be significant at 95% level of confidence. This is because the (significant

value p <0.05). This implies that the leverage can be used to predict the dividend payout ratio for profitable non- financial companies listed in Nairobi Securities Exchange.

The tolerance values show that there is no multicollinearity between the variables as they are close to 1 and highly above 0.472 (1-R^2).

Table 4 Coefficients of Collinearity

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1	4.272	38.758		-.113	.909		
(Constant)	11.186	1.346	.404	2.092	.038	.634	1.577
Size	.048	.208	.018	.230	.818	.947	1.056
Risk	-4.254	1.267	-.282	-3.358	.001	.815	1.227
Leverage	-16.040	7.292	-.154	-2.200	.029	.997	1.003
Growth	-8.942	5.806	-.310	-1.540	.126	.643	1.555
Tax Roe	31.388	36.878	.083	.851	.396	.606	1.649

Table 5 Correlation between earnings and dividends

	DPS	EPS
Pearson Correlation	1	.672**
Sig. (2-tailed)		.000
N	200	200

The table 5 indicates the correlation between earning and dividend. From the analysis, it can be observed that the Pearson correlation is equal to 0.672, with a p value of 0.000. This implies that there is significant evidence to conclude that dividends and earnings are positively correlated.

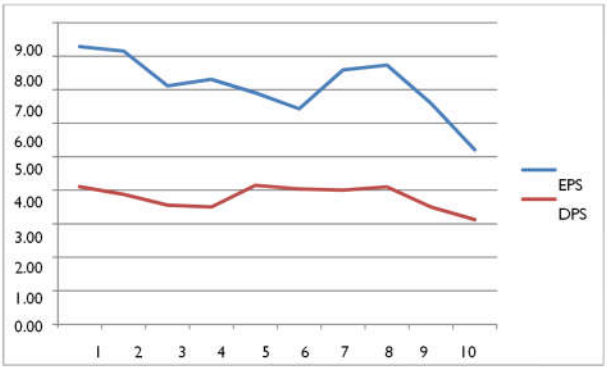

Figure 1 NSE profitable firms

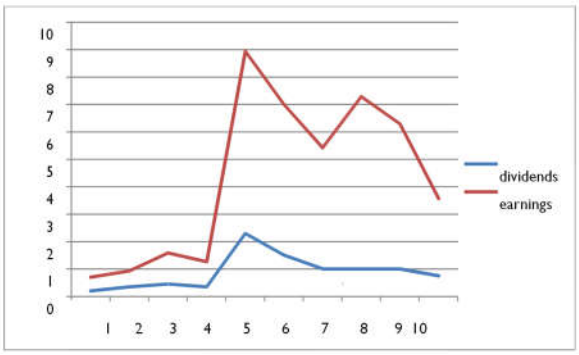

Figure 2 CMC'S dividends and earnings

The increase in earnings per share will lead to increase to the dividend. A plot of earnings and the dividend indicate there is increase in earning against the dividend payout per share. It was observed that dividends tend to follow earnings though it is clear that dividends follow a smoother series than the earnings.

These results are consistent with the findings of (Standard and Poor, 2009) of a survey of U.S. dividend paying firms. The survey brought out several patterns for dividend policies of firms in the United States for a period of fifty years. First, dividends tended to lag behind earnings; that is, increases in earnings were followed by increases in dividends, and decreases in earnings sometimes by dividend cuts. Second, dividends were found to be "sticky" because firms seemed typically reluctant to change dividends; in particular, firms seemed to avoid cutting dividends even when earnings dropped. Third, dividends tended to follow a much smoother path than did earnings. Based on the evidence shown in the dividends and earning graphs, it emerges that dividends lag behind earnings and that the firms considered appear reluctant to increase dividends even as their earnings increase with a big margin. This is clearly visible from Figure 2 and 3.

Correlation Analysis between DPR and Firm value

The researcher carried out a correlation analysis on DPR and value of firm to find out the effect of DPR on the value of profitable firms listed in the NSE and the results obtained are represented in Table 5 below.

Table 6 Correlation between DPR and value of firm

	DPR	FIRM VALUE
Pearson Correlation	1	.464*
Sig. (2-tailed)		.039
N	200	200

From the analysis between the DPR and the value of the firm, it can be observed that the Pearson correlation value is equal to 0.464, with a p value of 0.039 which is less than 0.05 level of confidence. This implies that there is a significant relationship between dividend payout ratio and firm value of profitable companies.

There was a strong positive relationship between dividend payout and firm performance. The strong relationship was shown by the P value of 0.39 and a positive coefficient. This indicated that dividend is a significant factor in influencing firm value. The findings were consistent with the signaling theory which states that dividends convey information to the market (Howatt *et al*., 2009). Cash dividend announcements convey valuable information, which shareholders do not have; about management's assessment of a firm's future profitability thus investors may therefore use this information in assessing a firm's share price (Al-Kuwari, 2009).

CONCLUSIONS AND RECOMMENDATIONS

Introduction

This chapter presents summary of key findings as per the objectives of the study based on the analysis of the data collected. The chapter also gives the conclusions of the study and recommendations for practice and for further study.

Summary of Key findings

Determinants of DPR in profitable firms

The aim of this study was to determine the determinants of dividend payout in profitable non-financial companies listed in Nairobi security exchange. Several variables were used in the study to determine the determinant of dividend payouts in profitable non-financial companies listed in Nairobi securities Exchange. The major objective of this study was to find out the determinants of dividend payout in profitable firms listed in the NSE. The researcher analyzed six variables; firm size, risk, leverage, growth, taxation and ROE. However, only three variables; size, leverage and growth were found to have a significant effect on DPR of profitable firms in the NSE. Therefore the researcher considered firm size, leverage and growth to be the important determinants of DPR in profitable companies in the NSE.

Firm size was found to have a positive and strongly significant influence on DPR, which indicates that large firms distribute a higher amount of their net profits as dividends, than do small firms. The researcher attributed the positive relationship between firm size and dividend payout ratio to transaction costs; larger firms have better access to capital markets and find it easier to raise funds at lower costs, allowing them to pay higher dividends to shareholders.

Business risk was found to have a positive and insignificant relationship with DPR. The business risk for the profitable firms was found to be low on average. This may be the reason as to why it is not a significant influence on DPR. The profitable firms have relatively stable earnings hence they are more likely to pay a higher percentage of its earnings than firm with fluctuating earnings.

Earnings were found to have a positive and insignificant relationship with DPR of profitable firms. Firms pay dividends from their earnings, hence the more profitable a company is, the higher the chances that it will pay high dividends. The influence is however not strong implying that profit is not a sole determinant of the DPR in profitable firms. The returns of the firms considered are relatively stable hence they are not a major determinant of DPR.

Leverage was found to have a negative and strongly significant effect on DPR of profitable firms. The profitable firms were found to be highly levered with a mean of 2.5 meaning debt was more than two times greater than internal financing. Highly levered firms maintain their internal cash flow to fulfill duties, instead of distributing available cash to shareholders and protect their creditors. The restrictions by lenders on dividend payout are also a factor that hinders dividend payout in the highly levered firms.

Firm growth was found to have a negative and strongly significant relationship with DPR of profitable firms. This means that the higher the growth of a firm, the lower the dividends it pays. This can be explained by the fact that for companies to grow or to take investment opportunities, funds are needed. Growing firms have high financing needs because working capital needs normally exceed the incremental cash flows from new sales. Therefore instead of distributing their earnings as dividends, they re-invest. The results are consistent with the findings of (Higgins, 1981). He shows that payout ratios are negatively related to firms' need top fund finance growth opportunities.

Corporate tax was found to have an insignificant negative effect on the DPR of profitable firms. The corporate tax rate in Kenya has not changed over years and also the tax treatment on dividends. Dividends are immediately taxable while taxes on capital gains are not due until the stock is sold, creating a tax deferral that aids in wealth accumulation. Rather than paying earnings directly to shareholders as dividends, some companies may opt to reinvest the earnings in the business. This has tax advantage as shareholders are in effect receiving a capital gain. Therefore, tax has an influence on dividend payout from the point of view of a shareholder but not from the point of view of a company hence the little effect of tax on DPR as per the results of this study.

Relationship between returns and dividends per share

From the correlation analysis carried out between EPS and DPS, this research has found out that the two variables have a positive relationship. A graphical representation of DPS and EPS show that dividends lag behind earnings and that firms considered appeared reluctant to increase dividends even as their earnings increase with a big margin.

Relationship between DPR and value of firms

Dividend payout ratio affects firm performance and that this relationship is strong and positive. It therefore shows that dividend policy is relevant and therefore affects the value of a firm hence its value contrary to theories that view dividend policy as irrelevant.

CONCLUSIONS

This research found out that profitable firms in the NSE are big size firms, are highly levered, are high growth firms, are low risk firms and they pay average dividends. The study found that 80% of the profitable firms in the NSE constantly paid dividends for the study period. Some firms were generous while others were reluctant to increase their dividends. The regression results identified leverage, growth and firm size as the major determinants of DPR for the NSE listed profitable companies. Profitability is not a primary determinant of DPR though it is positively associated with

DPR. Leverage and growth have a negative impact on DPR while firm size has a positive impact on DPR.

Earnings are positively correlated with dividends hence firms with high returns tend to increase their dividend payout. DPR effect on the firm value was found to be positive and strong.

Policy Recommendation

The implication of this study to corporations is that leverage, growth and firm size are the key determinants of DPR, and it is important to pay attention to these factors in setting their dividend policies. Secondly the dividend payout ratio was significant in determination of the firm value and therefore key to the success of a firm to attract investors.

To the investor, whose aim is to maximize dividends and the value of their shares then, apart from profitability they need to consider leverage, growth opportunities and firm size for steady investment offers.

Future study

The researcher recommends the following areas for future research: What determines the dividend payout policy for unquoted firms? What are the determinants of dividend payout and the moderating effects of firm age and past dividend?

References

Al-Kuwari, D. (2009). Determinants of the dividend policy in emerging stock exchanges". *Global Economy & Finance Journal,* 2(2), 38 – 63

Al-Malkawi, H. (2007). "Determinants of Corporate Dividend Policy in Jordan: An Application of the Tobit Model". *Journal of Economics and Administrative Sciences*, 23 (2), 44-70.

Amidu, M. (2007). How does dividend policy affect performance of the firm on Ghana stock Exchange. *Investment Management and Financial Innovations*, 4(2), 104 -112

Baker, H. Kent, Gary E. Powell, and E. Theodore Veit, (2001), *Revisiting Managerial Perspectives on Dividend Policy*, Journal of Economics and Finance 26, 267-283.

Bhattacharyya N. (2000), "*Essays on dividend policy*", PhD dissertation, University of British Columbia.

Bhattacharyya S. (1997), "*Imperfect information, dividend policy and the bird in hand fallacy*", *Bell Journal of Economics*, Vol. 10, pp. 259-270.

Dhanani, A. (2005). "Corporate dividend policy: The views of British financial managers". *Journal of Business Finance & Accounting,* 37(7) & (8), 1625 – 1672.

D'Souza, J. (1999),"Agency cost, market risk, investment opportunities and dividend policy- an international perspective", Managerial Finance, Vol. 25 No. 6, pp. 35-43

Fama, E., &French, K., (2001), 'Changing Firm Characteristics or lower Propensity' *Journal of Financial Economics,*pp.3-43.

Farsio, F., Geary, A., & Moser, J. (2004). The relationship between dividends and earnings. *Journal for Economic* Educators, 4(4), 1 – 5.

Higgins, R.C.,(1972), "The corporate dividend- saving decision", *Journal of Financial and Quantitative Analysis,* Vol.7 No. 2 pp. 1527-41.

Lintner, John, (1956), Distribution of Incomes of Corporations Among Dividends*, Retained Earnings, and Taxes,* American Economic Review 46, 97-113.

Lintner, John, (1962), *Dividends, Earnings, Leverage, Stock Prices and Supply of Capital to Corporations,* The Review of Economics and Statistics 64, 243-269.

Lloyd, W.P., Jahera, S.J. and Page, D.E. (1985), "Agency cost and dividend payout ratios" *Quarterly Journal of Business and Economics*, Vol. 24 No. 3, pp. 19-29

Maniagi G,Ondiek B.A., Musiega D., Maokomba O.C.,Egessa R.,(2013), Determinants of Dividend payout Policy Among Non-Financial Firms on NSE, *International Journal of Scientific & Technology Research* Volume2, Issue 10, October 2013.

Miller, M.H. and Modigliani, F. (1961), "Dividend policy, growth and the valuation of shares" *Journal of Business,* October, pp.411-39

N. Bhattacharyya, (2007),"*Dividend policy: a review*", Managerial Finance, Vol. 33 Iss: 1pp.4– 13 Nairobi Securities Exchange hand book 2012.

Pandey, M. I. (2005). *Financial Management* (9th ed.). New Delhi: Vikas publishing House Pvt Limited.

Pruitt, S.W. and Gitman, L.W. (1991)"The interactions between the investment, financing, and dividend decisions of major US firms", Financial Review, vol. 26 No. 33, pp. 409-30.

Rozeff, S.M., (1982)," Growth, Beta and Agency Costs as Determinants of Dividend payout Ratios, *The Journal of Financial Research* 5, 249-259.

Saunders, M, Phillip L Thornhill A., (2000), Research Methods for Business Students, (Second Ed.) England: Ashford Colour Press Ltd, Gosport.

Soondur S.A.K, Maunick. D, Sewak .S (2016). Proceedings of the Fifth Asia Pacific Conferenceon Global Business, Economics, Finance and Social Sciences (AP16Mauritius Conference) ISBN -978-1-943579-38-9 Ebene-Mauritius, 21-23 January, 2016.

Stulz, R. M. (2000). Merton Miller and modern finance. *Financial Management*, 29(4),119– 131.

Wasike. W.T., A. & Ambrose, J. (2015)**.** **"**Determinants of Dividend Policy in Kenya". *International Journal of Arts and Entrepreneurship* 4 (11), 71-80.

How to cite this article:
Nguri *et al,:* Determinants Of Dividend Payout Ratio For Profitable Non- Financial Companies Listed In Nairobi Securities Exchange; Kenya. International Journal of Research and Current Development 2017; 2(2): 86-93.