THE INFLUENCE OF FINANCIAL PERFORMANCE ON DIVIDEND PAY OUT OF COMMERCIAL BANKS LISTED AT THE NAIROBI SECURITIES EXCHANGE, KENYA

Jepkemoi, A., Odoyo, F., Simiyu, R., & Onyango, R.

The Strategic JOURNAL of Business & Change MANAGEMENT
ISSN: 2312-9492 www.strategicjournals.com

Vol. 6, Iss. 3, pp 371 - 387, August 10, 2019. www.strategicjournals.com, ©Strategic Journals

THE INFLUENCE OF FINANCIAL PERFORMANCE ON DIVIDEND PAY OUT OF COMMERCIAL BANKS LISTED AT THE NAIROBI SECURITIES EXCHANGE, KENYA

Jepkemoi, A.,[1] Odoyo, F.,[2] Simiyu, R.,[3] & Onyango, R.[4]

[1*]Master Student, Catholic University of Eastern Africa [CUEA], Kenya
[2] PhD, Lecturer, Catholic University of Eastern Africa [CUEA], Kenya
[3] Catholic University of Eastern Africa [CUEA], Kenya
[4]Masinde Muliro University of Science and Technology [MMUST], Kenya

Accepted: July 1, 2019

ABSTRACT

This study sought to adduce empirical evidence on the influence of financial performance on dividend payout in the context of commercial banks listed at the Nairobi Securities Exchange (NSE) in Kenya. It was anchored on the liquidity preference, pecking order, and life cycle theories. The study used descriptive longitudinal design. Each of the required ratios was lifted from financial statements where directly reported, or calculated. The ratios were then entered into Statistical Package for Social Sciences (SPSS) version 20. The data were then processed and subjected to multi-collinearity test, then descriptive and regression analyses. The input variable in the study was the financial performance measured by the annual profitability, liquidity, and capital structure ratios. The general objective was met through multiple regression. The study demonstrated a significant influence of the combined factors: profitability; liquidity; and capital structure on dividend payout of the commercial banks listed at the NSE. The study determined that profitability was indeed a significant influence of dividend payout. The study also revealed that liquidity was not a significant influence of dividend payout of the commercial banks listed at the NSE. The study finally revealed that capital structure had no statistically significant influence on dividend payout. This study therefore suggested a further study focusing on the same concepts, but inclined on the unlisted commercial banks due to their relatively less public scrutiny. The study also recommended a study on the influence of financial performance on all the 64 firms listed at the NSE, and possibly a comparison among the various economic sectors. The study further suggested a study on the same context, but using a longer longitudinal span since that would enhance more validity of the measures of association between the variables. The study finally recommended a study focusing on the non-financial dimensions of dividend payout including the mode of payment, regularity of payments, et cetera.

Key Words: *Financial Performance, Profitability, Liquidity, Capital Structure, Dividend Payout*

CITATION: Jepkemoi, A., Odoyo, F., Simiyu, R., Onyango, R. (2019). The influence of financial performance on dividend payout of commercial banks listed at the Nairobi Securities Exchange, Kenya. *The Strategic Journal of Business & Change Management,* 6 (3), 371 – 387.

INTRODUCTION

The significance of financial performance in the determination of dividend payout of an organization remains paramount among shareholders and other key stakeholders. The concept of dividend payout has been defined by Akinyomi (2014) as the set of policies governing the payment of dividends among organizations. The concept of financial performance has, on the other hand, been defined by Uwuigbe, Jafaru, and Ajayi (2012) as the extent to which the organization meets its financial objectives. According to Imran (2011) the dividend pay out has the capacity to influence financial performance since under such conditions, the organization foregoes any attractive investment opportunities that could result to better financial performance both in the short and long runs.

This study sought to adduce empirical evidence on the influence of financial performance on dividend payout in the context of commercial banks listed at the Nairobi Securities Exchange (NSE) in Kenya. It was anchored on the liquidity preference, pecking order, and life cycle theories in the field of Finance. Liquidity preference theory is based on the observation that, holding all other factors constant, investors prefer holding onto cash and will want premium compensation for investment in illiquid assets including real estate, bonds and stocks. According to pecking order theory, firms prioritize finance based on the principle of least resistance (Chowdhury, 2006). The life cycle theory postulates that dividend payment by an organization is largely a function of stage in the life cycle.

The study drew motivation from the policy and management dilemma facing policy makers and corporate managers, respectively. This is in light of the relationship between dividend payout and financial performance of organizations. Key among the areas of dilemma were whether to pay, how to pay, and when to pay dividend in order to enhance superior financial performance. In light of this, the most favored option is normally the internal sources of funds, then debt and finally equity as the last option. By limiting payouts, a firm will have free cash flows in form of retained earnings and therefore no need for additional debt and equity capital (Kohn, 2003). Even though previous studies on determinants of financial performance have identified firm size among financial performance determinants, little has been done on the perspective of dividend payout of commercial banks listed at the NSE(Ndungu, 2009; Muchiri, 2006).

Organizational performance comprises the actual output or results of an organization as measured against its intended outputs (or goals and objectives). The measurement of financial performance has been done using diverse models, with the balanced scorecard by Kaplan and Norton (2002) being the most popular in the recent past. According to the balanced scorecard, financial performance is one of the dimensions of organizational performance, and is by all means the oldest. Some of the traditional indicators of financial performance include profitability, liquidity, and financial leverage (Brearleyet al., 2000).

Profitability measures the ability of an organization to earn profits, the latter being the excess of revenue after all expense have been netted off. According to Pandey and Bhat (2007), profitability is the most popular measure of financial performance of an organization, with most other indicators derived from it. Liquidity refers to the ability of an organization to meet its short term obligations as and when they may fall due (Akinyomi, 2014). Financial leverage is an indicator of the extent to which the assets of an organization have been funded by debt finance, and hence the external charge on the assets. The study used the three indicators of financial performance due to their widest use in literature and relevance to the context of commercial banks.

Dividend payout has been defined by Ross, Westerfield and Jordan (2000) as money that is paid

The Strategic Journal of Business & Change Management. **ISSN** 2312-9492 (Online) 2414-8970 (Print). www.strategicjournals.com

as a result of earnings. Distributions are the payment made from other sources other than current accumulated retained earnings. Distribution from earning can therefore be referred to as dividend and distributions from capital as liquidating dividend. Payment in direct form by a concern to its shareholders can be deemed as dividend or a characteristic of dividend policy. According to (Brearley & Myers, 2000),dividend policy is an attempt to strike an optimal balance between retained earnings, dividend payout, and rights issue. Baker, H. (1999) noted that industry differences and expected future returns are the dominant determinants of dividend policy. Dividend policy determines how much out of current earnings are paid out to shareholders and how much is retained for reinvestment. Some investors prefer reinvesting their earnings for future growth yet others prefer payout. Prevailing macroeconomic conditions in an economy allows managers to plan in advance on whether to pay out dividends or to reinvest. Dividend policy helps firm managers determine in advance how much of current earnings should be paid out as dividend and how much should be retained. Other key matters relating to a concern's aggregate dividend policy include requirements of the law, liquidity and regulatory issues; administrative considerations; dividend stability; stock splits; market responses and stock repurchases (Brearley & Myers, 2000).

Statement of the Problem

Managers are always faced with difficult decisions to make with respect to dividend policy, with each strategic option having a potential to impact financial performance of the organiation positively and negatively (Pandey & Bhat, 2007). In light of this, decisions regarding whether to pay, when to pay, and how to pay dividends have dominated academic as well as professional debates. Because of the variegated nature of study outcomes, there is a dilemma among corporate leaders on the justification for dividend policies (Uwuigbe, Jafaru, & Ajayi, 2012).

Many companies at the Nairobi Securities Exchange are increasingly becoming reluctant to declare dividends or issue bonuses. An analysis by Business Beat on the 64 listed companies at the NSE found that over a third of the companies had not paid dividends since 2014, with a further 15 companies reducing their dividends per share. Against this backdrop, many investors had openly expressed displeasure. In this regard, various reasons had been advanced for this variability, including prevalence of systematic risks. Moreover, with governments worldwide using commercial banks as an avenue to operationalize their monetary and fiscal control policies, the performance of these organizations cannot play a peripheral role.

Because of the strategic dilemma facing organizations including commercial banks with respect to dividend payout and financial performance, various sudies have been conducted. A study by Rao (2016) focused on the relationship between macroeconomic factors and financial performance of the five firms listed at the NSE. However, the study had a narrower contextual focus by looking at only the listed firms in the energy and petroleum sector. The focus of the study was also not on dividend payout.

Focusing on the determinants of dividend payout ratio in the context of Indian companies, Labhane (2015) established that dividend payout varied across firms. Dividend payout was, however, not included in the analytical model and the study context was Indian hence conclusion may not be induced to the Kenyan situation. A study by Makori (2015) focused on the influence of macroeconomic forces on performance of construction and allied companies listed at the NSE between the years 2004 to 2013.

However, the study focused on neither dividend policy nor financial performance in particular, and narrowed down to only the construction and allied

The Strategic Journal of Business & Change Management. **ISSN** 2312-9492 (Online) 2414-8970 (Print). www.strategicjournals.com

companies' context. A study by Wanjiru(2013) focused on the association between macroeconomic parameters and dividend payout, considering inflation, exchange rates, money supply and interest rate as the macroeconomic variables influencing dividend payout. However, the study did not consider the REPO, CBR, and 91-Day Treasury bill rates as critical dimensions of monetary policy. Focusing on the impact of macroeconomic variables on firm performance of Malaysian firms, Noh (2009) determined that only the past information on interest rate may be used to predict the share price and in the second sample no information from any of the macroeconomic variables may be used to predict share price. However, because it focused on a foreign context, the findings may not apply to the Kenyan setting due to unique contextual attributes of the latter. The study also focused on share price rather than dividend payout.

A study by Pandey(2004) focused on the behavior of Indian concerns in regard to dividend payout under restricted monetary policy. The study extended Linter framework to examine balanced panel data of 571 firms for a period of 10 years. However, because the Kenyan context is unique, the findings by Pandey (2004) may not directly apply. This study therefore sought to find out influence of financial performance on dividend payout on listed banks.

Hypothesis of the Study

The study tested the following null hypotheses:

H_0: Financial performance has no significant influence on dividend payout of commercial banks listed at the Nairobi Securities Exchange.

Accordingly, the following sub-hypotheses were tested:

H_{01}: Profitability has no significant influence on dividend payout of commercial banks listed at the Nairobi Securities Exchange.

H_{02}: Liquidity has no significant influence on dividend payout of commercial banks listed at the Nairobi Securities Exchange.

H_{03}: Capital structure has no significant influence on dividend payout of commercial banks listed at the Nairobi Securities Exchange.

LITERATURE REVIEW

Influence of profitability on dividend payout: Profitability of a firm is an important aspect of a firm's dividend policy. The profitability of a firm is a good indicator of their ability to generate earnings to its shareholders. Furthermore, it is an important determinant as it can reflect the firm's operational efficiency (Musiega, Alala, Douglas, Christopher and Robert, 2013; Bremberger, Cambini, Gugler, and Rondi, 2013). Empirically the profitability of the company is positively or negatively related to the dividends distributed. Authors such as DeAngelo, DeAngelo and Skinner, (2004), Fama and French (2001), Lie (2005), Ribeiro (2010) and Yegonet al. (2014) concluded that companies with higher profitability levels have a higher tendency for the payment of dividends.

Influence of Liquidity on Dividend Payout: Dividend payout decision is a critical financial function because it involves determining the amount distributed to the shareholders as earnings on return of capital invested in terms of shares and the amount to be reinvested internally. The determination of dividend pay-out is influenced by the liquidity position of the firm and the extent to which liquidity affects the dividend pay-out still remains a puzzle since most empirical studies conducted have reported inconsistent results and no universally accepted explanation for companies with adequate liquidity have observed uniform dividend payment behavior. Ibrahim (2014) investigated the factors influencing dividend decisions and more specifically the relationship between dividend payout ratio and dividend declared on one hand with net cash, liquidity, and profitability on the other hand. The study had covered 24 local and six foreign commercial banks working in UAE, and tested the following three hypotheses. The first hypothesis

assumed a significant relationship between the amount of net profit and the percentage of declared dividend; the second assumed a linear relationship with the bank's liquidity as measured by its net cash flows, and the third assumed percentage of dividend declared was significantly related to the liquidity of the bank. The results of the study failed to reject the first and the second hypotheses and rejected the third one.

Influence of Capital Structure on Dividend Payout: Arundam, B., & Anupam, D. (2016) investigated the influence of capital structure decisions on dividend payout ratio for the companies belonging to BSE500 in India during the pre- and post-period of the recent global recession. The pre-recession period had been taken from 2001–2002 to 2006–2007 while the post-recession period from 2007–2008 to 2012–2013. The dependent variable taken into consideration was the Dividend Payout ratio and 10 independent variables which might have some impact on the dependent variable taken into consideration were Business Risk, Size (Log Sales), Size (Log assets), Growth Rate (Assets), Interest Coverage Ratio, Degree of Operating Leverage, Financial Leverage, Return on Assets, Tangibility and 'Non-Debt Tax Shield. Logistic regression was utilized in the study. It was found from the study that Growth Rate (Assets) and Profitability (Return of Assets) were significant variables influencing the dividend payout ratio in the prerecession period, while Profitability (Return on Assets) and Financial Leverage are significant variables influencing dividend payout ratio in the post-recession period.

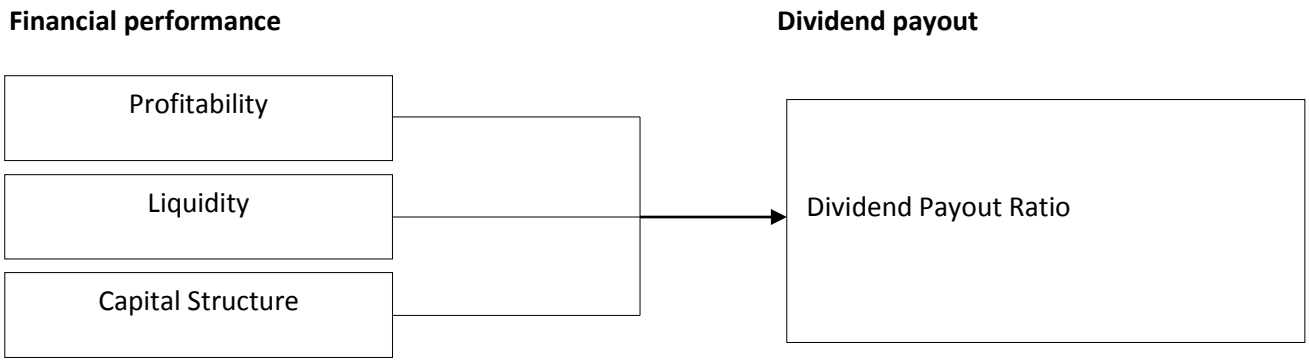

Figure 1: Conceptual Framework

Source: Author (2019)

METHODOLOGY

This study used descriptive longitudinal design. Commercial banks listed in Nairobi Securities Exchange were identified as an appropriate study population because they were obligated by the legal framework to publish their audited accounts with dividend payout ratio as a requisite component. Secondary data collection sheet were developed by the researcher. The instrument was developed to ensure that it captures the correct and accurate data. The data that were collected focused mainly on the dividend payout variable and measures of financial performance over the period 2013 to 2017. Balance sheets and income statement for the study period were analyzed to establish the following variables of the study; profitability, capital structure and liquidity. Secondary data on both financial performance and dividend payout were obtained from the annual statements published each of the 11 commercial banks for the period 2013 to 2017. Each of the required ratios was lifted from the financial statements where directly reported, or calculated. The ratios were then entered into Statistical Package for Social Sciences (SPSS) version 20.

Data was analysed using descriptive and regression analyses were undertaken. Descriptive analysis entailed measures of central tendency and dispersion, while regression analysis involved correlation analyses.

The input variable in the study was the financial performance measured by profitability, liquidity, and capital structure ratios. The linear regression equation below was thereafter used determine the influence of financial performance on dividend payout of commercial banks listed at the Nairobi Securities Exchange:

$$D = \beta_0 + \beta_1 P + \beta_2 L + \beta_3 C + \mu i$$

Where: D is the dividend payout ratio, β_0 is the regression constant, while β_1, β_2, and β_3 are the regression coefficients, P is the profitability measured by earnings per share (EPS), L is the liquidity measured by current ratio, C is the capital structure measured by proprietary ratio, and μí refers to the expected error that is assumed to be associated with the variables. The t-test was performed to test the significance of the dividend payout in the model while F-test was used to assess the overall robustness and significance of the linear regression model.

FINDINGS

The central tendency and dispersion statistics were undertaken. The central tendency measured the extent to which the data on each variable were concentrated at a central point while dispersion measured the degree to which the data were spread out from the convergent point. The central tendency was measured by the mean while dispersion was measured by the range, variance, and standard deviation. Table 1 presented the findings of the study with respect to the descriptive analytics.

Table 1: Descriptive Statistics

	N	Range	Minimum	Maximum	Mean	Std. Deviation	Variance
Dividend payout	11	.0993	.1063	.2056	.1509	.0412	.002
Profitability	11	.0993	.1063	.2056	.1635	.0394	.002
Liquidity	11	.2626	.4097	.6723	.5393	.0691	.005
Capital Structure	11	.1540	.7521	.9061	.8151	.0475	.002

The Strategic Journal of Business & Change Management. **ISSN** 2312-9492 (Online) 2414-8970 (Print). www.strategicjournals.com

From Table 1 dividend payout had a minimum of 0.1063, implying that the lowest annual average payout over the period was 10.63%. The highest dividend payout ratio was 0.2056, implying that the largest annual dividend payout average over the period was 20.56%. This represented annual dividend payout range of 0.0993, representing 9.93%, over the period under review. The dividend payout also had a variance of 0.002 and a standard deviation of 0.0412. The mean of dividend payout was 0.1509, representing 15.09%. This implied that the dividend payout among the banks, measured by DPR, tended towards 15.09%.

As demonstrated by Table 1 profitability had a minimum of 0.1063, meaning that the lowest profitability was 10.63% among commercial banks. The highest profitability stood at 0.2056 representing 20.56% capital structure over the period 2013-2017. Accordingly, the profitability range was 0.0993, representing 9.93%, over the period under review. The variance for profitability was 0.002, while the standard deviation was 0.0394. The mean for profitability was 0.1635 representing 16.35%. This implied that the profitability for the commercial banks, measured by the EPS, tended towards 16.35%.

Liquidity had a minimum of 0.4097, meaning that the lowest liquidity ratio among the commercial banks was 40.97% during the five year period. The highest liquidity ratio was 0.6723 over a similar period, representing 67.23%. In this regard, the liquidity ratio had a range of 0.2626 representing 26.26%. The liquidity ratio had a variance of 0.005 and a standard deviation of 0.0691. The variance and standard deviation of liquidity, measured by current ratio, were about the mean of 0.5393representing 53.93%. This means that on average, each firm could sufficiently meet its short term obligations, with a surplus of 3.93%. The minimum capital structure, measured by proprietary ratio, was 0.7521 representing 75.21% over the five year period. This was against a maximum of 0.9061 representing 90.61% during a similar period. The range, therefore, was 0.1540 representing 15.4% over the period 2013-2017. The variance was 0.002 while the standard deviation was 0.0475. The variance and standard deviation were about the mean of 0.8151 representing 81.51% over the period under review. This means that on average, each commercial bank listed at the NSE had its fixed assets financed by 81.51% equity holders.

Regression Analysis

The study sought to determine the influence of financial performance on dividend payout of commercial banks listed at the Nairobi Securities Exchange (NSE). The coefficients of determination were used to bring out the extent to which each of the three independent variables: profitability, liquidity, and capital structure explained the dependent variable, dividend payout. The coefficients of correlation were used to determine the degree of relationship between each of the independent variables: profitability, liquidity, and capital structure and the dependent variable, dividend payout.

Influence of Financial Performance on Dividend Payout

The general objective of the study was to determine the influence of financial performance on dividend payout of commercial banks listed at the Nairobi Securities Exchange. The corresponding null hypothesis (H_0) was that 'Financial performance has no significant influence on dividend payout of commercial banks listed at the Nairobi Securities Exchange'. The findings were as shown in Table 2 below.

The Strategic Journal of Business & Change Management. **ISSN** 2312-9492 (Online) 2414-8970 (Print). www.strategicjournals.com

Table 2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	.830[a]	.689	.556	.0274448

a. Predictors: (Constant), Capital Structure, Profitability, Liquidity

From Table 2 above the correlation coefficient, represented by 'R' was +0.830 representing 83.0%. This implied that the joint correlation between profitability, liquidity, and capital structure (financial performance) and dividend payout was 83.0%. This meant that a joint increase of 1% in financial performance as represented by profitability, liquidity, and capital structure would led to an increase of 83.0% in dividend payout.

As evident from Table 3 the coefficient of determination, represented by the adjusted 'R square' was 0.556 representing 55.6%. This implied that financial performance as represented by profitability, liquidity, and capital structure jointly explained up to 55.6% of dividend payout. This meant that 44.4% of dividend payout was explained by variables outside the model at 95% confidence interval.

Table 3: Analysis of Variance

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	.012	3	.004	5.181	.034
Residual	.005	7	.001		
Total	.017	10			

a. Dependent Variable: Dividend payout

b. Predictors: (Constant), Capital structure, Profitability, Liquidity

From the ANOVA statistics in Table 4 the regression model had a fit with the data (F=5.181, P < 0.05). This was an indication that financial performance had a significant influence on dividend payout. The model, therefore, rejected the null hypothesis (H_0) that 'Financial performance has no significant influence on dividend payout of commercial banks listed at the Nairobi Securities Exchange'.

Table 4: Model Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-.330	.243		-1.358	.217
Profitability	.750	.263	.718	2.849	.025
Liquidity	.082	.168	.138	.489	.640
Capital Structure	.385	.210	.444	1.836	.109

a. Dependent Variable: Dividend payout

From Table 4 above, the established regression equation was:

D = -0.330 +0.750P + 0.082L - 0.385C

From the above regression equation it was revealed that if change in profitability, liquidity and capital structure were each zero, dividend payout would reduce by a factor 0.330, representing 33.0%. However, a unit change in profitability would lead to an increase in dividend payout by a factor of 0.750, unit change in liquidity would lead to increase in dividend payout by a factor of 0.082 and a unit change in capital structure would lead to decrease in dividend payout by a factor of 0.385. At 5% level of significance, profitability, liquidity and capital structure were each found to significantly influence dividend payout.

The Strategic Journal of Business & Change Management. **ISSN** 2312-9492 (Online) 2414-8970 (Print). www.strategicjournals.com

Influence of Profitability on Dividend Payout

The first specific objective of the study was to determine the influence of profitability on dividend payout of commercial banks listed at the Nairobi Securities Exchange. The corresponding null hypothesis (H_{01}) was that 'Profitability had no significant influence on dividend payout of commercial banks listed at the Nairobi Securities Exchange. The findings were as shown in Table 5 below.

Table 5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.730[a]	.533	.481	.0296823

a. Predictors: (Constant), Profitability

From Table 5 above the correlation coefficient, represented by 'R' was 0.730 representing 73.0%. This implied that the correlation between profitability, indicated by EPS, and dividend payout, indicated by DPR, was 73.0%. This means that an increase of 1% in profitability would lead to an increase of 73.0% in dividend payout.

As evident from Table 5 the coefficient of determination, represented by the adjusted 'R square' was 0.533 representing 53.3%. This implies that profitability, indicated by EPS, explained up to 53.3% of dividend payout. This meant that 46.7% of dividend payout was explained by variables outside the model.

Table 6: Analysis of Variance

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	.009	1	.009	10.273	.011
Residual	.008	9	.001		
Total	.017	10			

a. Dependent Variable: Dividend payout

b. Predictors: (Constant), Profitability

From the ANOVA statistics in Table 6 the regression model had a fit with the data ($F=10.273$, $P < 0.05$). This was an indication that profitability had significant influence on dividend payout. The model, therefore, rejected the null hypothesis (H_{01}) that 'Profitability has no significant influence on dividend payout of commercial banks listed at the Nairobi Securities Exchange'.

Table 7: Model Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.026	.040		.657	.528
Profitability	.762	.238	.730	3.205	.011

a. Dependent Variable: Dividend payout

From Table 7 the established regression equation was

$D = 0.026 + 0.762P$

From the above regression equation, it was revealed that if there were no changes in profitability, indicated by EPS, the dividend payout would still increase by the factor 0.026, representing 2.6%. However, a unit change in profitability would lead to an increase in dividend payout by a factor of 0.762. At 5% level of significance, profitability was found to significantly influence dividend payout.

Influence of Liquidity on Dividend Payout

The second specific objective of the study was to determine the influence of liquidity on dividend payout of commercial banks listed at the Nairobi

The Strategic Journal of Business & Change Management. **ISSN** 2312-9492 (Online) 2414-8970 (Print). www.strategicjournals.com

Securities Exchange. The corresponding null hypothesis (H_{02}) was that 'Liquidity had no significant influence on dividend payout of commercial banks listed at the Nairobi Securities Exchange. The findings were as shown in Table 8 below.

Table 8: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.467[a]	.218	.132	.0384019

a. Predictors: (Constant), Liquidity

From Table 8 above the coefficient of correlation, represented by 'R' was 0.467 representing 46.7%. This implied that the correlation between liquidity, indicated by current ratio, and dividend payout, indicated by DPR, was 46.7%. This meant that an increase of 1% in liquidity would lead to an increase of 46.7% in dividend payout.

As evident from Table 8 the coefficient of determination, represented by the adjusted 'R square' was 0.218 representing 21.8%. This implied that liquidity as represented by current ratio explained up to 21.8% of dividend payout. This would mean that 78.2% of dividend payout was explained by variables outside the model.

Table 9: Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.004	1	.004	2.514	.147
	Residual	.013	9	.001		
	Total	.017	10			

a. Dependent Variable: Dividend payout

b. Predictors: (Constant), Liquidity

From the ANOVA statistics in Table 9 the regression model had a fit with the data (F=2.514, P>0.05). This was an indication that liquidity had no significant influence on dividend payout. The model, therefore, failed to reject the null hypothesis (H_{02}) that 'Liquidity has no significant influence on dividend payout of commercial banks listed at the Nairobi Securities Exchange'.

Table 10: Model Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.301	.095		3.156	.012
	Liquidity	-.278	.176	-.467	-1.586	.147

a. Dependent Variable: Dividend payout

From Table 10 the established regression equation was D = 0.301 - 0.278L

From the above regression equation, it was revealed that if there were no changes in liquidity, the dividend payout would be 0.301, representing 30.1%. However, a unit change in liquidity would lead to a decrease in dividend payout by a factor of 0.278, representing 27.8%.

Influence of Capital Structure on Dividend Payout

The third specific objective of the study was to determine the influence of capital structure on dividend payout of commercial banks listed at the Nairobi Securities Exchange. The corresponding null hypothesis (H_{03}) was that 'Capital structure had no significant influence on dividend payout of commercial banks listed at the Nairobi Securities Exchange. The findings were as shown in Table 11 below.

The Strategic Journal of Business & Change Management. **ISSN** 2312-9492 (Online) 2414-8970 (Print). www.strategicjournals.com

Table 11: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.518[a]	.268	.187	.0371616

a. Predictors: (Constant), Capital Structure

From Table 11 above the correlation coefficient, represented by 'R' was 0.518 representing 51.8%. This implied that the correlation between capital structure and dividend payout was 51.8%. This meant that an increase of 1% in liquidity would lead to an increase of 51.8% in dividend payout.

As evident from Table 11 the coefficient of determination, represented by the adjusted 'R square' was 0.268 representing 26.8%. This implied that financial performance as represented by capital structure explained up to 26.8% of dividend payout. This would mean that 73.2% of dividend payout was explained by variables outside the model.

Table 12: Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	.005	1	.005	3.296	.103
	Residual	.012	9	.001		
	Total	.017	10			

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

From the ANOVA statistics in Table 12 the regression model had a fit with the data (F=3.295, P > 0.05). This was an indication that capital structure had no significant influence on dividend payout. The model, therefore, failed to reject the null hypothesis (H_{02}) that 'Capital Structure has no significant influence on dividend payout of commercial banks listed at the Nairobi Securities Exchange'.

Table 13: Model Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.215	.202		-1.065	.315
	Capital Structure	.449	.247	.518	1.815	.103

a. Dependent Variable: Dividend payout

From Table 13 the established regression equation was

D = -0.215 + 0.449T

From the above regression equation, it was revealed that if there were no changes in capital structure, the dividend payout would reduce by a factor 0.215, representing 21.5%. However, a unit change in capital structure would lead to an increase in dividend payout by a factor of 0.449, representing 44.9%. At 5% level of significance, capital structure was found to significantly influence dividend payout.

CONCLUSIONS

The study was founded on the null hypothesis that financial performance has significant influence on the dividend payout of commercial banks listed at the Nairobi Securities Exchange. The study findings on the influence of profitability on dividend payout of commercial banks listed at the Nairobi Securities Exchange demonstrated that profitability had an overall statistically significant influence on dividend payout of the commercial banks listed at the NSE, at 5% level of significance. Literature stream on the factors determining dividend payout of firm is rich.

The Strategic Journal of Business & Change Management. **ISSN** 2312-9492 (Online) 2414-8970 (Print). www.strategicjournals.com

These findings are in support of the postulations of pecking order theory (Donaldson, 1961; Myers et al., 1984) which predicts a significant relationship between profitability and dividend payout. According to the Pecking Order theory an organization will only pay dividends after all available investment opportunities with positive net present values have been exhausted.

Tamrin, Rahman, Sudirman, and Arfah (2017) determined that profitability was negatively significantly related to dividend payout, at 5% level of significance. Ajanthan (2017) established that profitability was positively significantly related to dividend payout, at 5% level of significance. The findings of the current study are, therefore, in support of those of both Tamrin, Rahman, Sudirman, and Arfah (2017) and Ajanthan (2017).

This study reported that liquidity had statistically insignificant influence on the dividend payout of commercial banks listed at the NSE, at 5% level of significance. The liquidity preference theory by Keynes (1936) postulates that investors have an appetite for liquid cash and would want to be compensated otherwise. The study provided evidence in support of the Keynesian postulations since the organizations would want to impress the potential shareholders by advancing more dividends during the period of better liquidity positions.

Ibrahim (2014) determined that dividend liquidity had statistically insignificant relationship with dividend payout, at 5% level of significance. Kimutai (2010) also determined also arrived at similar findings, under the same conditions. The current study, therefore, adduced empirical evidence in support of the supposed influence of liquidity on dividend payout.

The study revealed that capital structure had statistically insignificant influence on dividend payout of the commercial banks listed at the NSE, at 5% level of significance. This was failure to reject of the null hypothesis that 'capital structure has no significant influence on dividend payout of the commercial banks listed at the NSE'. The findings were inconsistent with the postulations of the life cycle theory of dividend payout which predicts that an organization is likely to pay more dividends at the later stages of the life cycle.

Arundam et al. (2016) determined that capital structure measured by return on assets had statistically significant relationship with dividend payout at 5% level of significance. Similar findings were reported by Basil (2011). The current study, therefore, adduced empirical evidence inconsistent with those of both Arundam et al. (2016) and Basil (2011). This could be due to contextual and hence moderating influence of contextual factors such as investment culture.

Based on the findings of the study, the theoretical propositions of the pecking order and life cycle theories of dividend payout got empirical backing. The predictions of liquidity theory were however not supported by the study findings. Accordingly, financial performance was generally found to have significant influence on dividend payout. This means that financially well performing commercial banks listed at the NSE were more likely to pay dividends than their financially poor performing counterparts. This implies that policy makers, the academia, and corporate leaders ought to monitor the overall financial performance of commercial banks since it explained a lot about dividend payout.

The study established that profitability was indeed a significant determinant of dividend payout among the commercial banks listed at the NSE. This implies that more profitable organizations were more likely to pay dividends than there less profitable counterparts. This implies that profitability ought to be a major focus of the various stakeholders charged with the responsibility of ensuring both the financial health and the ability of commercial banks to pay dividends.

The study however determined that, although considered key among commercial banks as illustrated by the relatively favorable descriptive statistics. It was insignificant with respect to dividend payout. Due to the policy requirement, nevertheless, liquidity is considered important with the regulatory minimum of 20% annually in Kenya. The diverse stakeholders ought to consider this legal implication despite the findings of this study with regard to the measures of association.

The capital structure was found to have statistically insignificant influence on dividend payout among the commercial banks listed at the NSE. This is implies that various actors in the industry ought not to put premium on capital structure in order to improve the chances of dividend payout among the commercial banks, should instead focus on significant determinants such as profitability. This also means that the policy makers, practitioners, and the academia must put keen attention on capital structure in the dividend payout discourse in Kenya.

The study focused on the influence of financial performance on dividend payout of the commercial banks listed at the NSE. The study utilized balanced panel data from the published financial statements from the individual organizations, for the period 2013 to 2017. Descriptive and associations measures were used to draw the conclusions of the study. However, the study has limitations inherent in its conceptual, contextual, and methodological focus, thereby necessitating further research.

The study therefore suggests a further study focusing on the same concepts, but focusing on the unlisted commercial banks due to their relatively less public scrutiny. The study also recommends a study on the influence of financial performance on all the 64 firms listed at the NSE, and possibly a comparison among the various economic sectors. The study further suggests a study on the same context, but using a longer longitudinal span since that would enhance more validity of the measures of association between the variables. The study finally recommends a study focusing on the non-financial dimensions of dividend payout including the mode of payment, regularity of payments, et cetera.

REFERENCES

Abor, J. and Amidu, M. (2006).“Determinants of the Dividend payout ratio in Ghana”, *The Journal of Risk Finance* 7(2), 136-145.

Abdul, A., &Muhibudeen, L. (2015). Relationship between dividend payout and firms performance :evaluation of dividend policy of oando plc. *International Journal of Contemporary Applied Sciences*, *2*(6), 56-71.

Acharya, V. V., & Pedersen, L. H. (2013). Asset pricing with liquidity risk. *Journal of financial Economics*, *77*(2), 375-410.

Ahmed, H., & Javid, A. (2009). Dynamic And Determinants Of Dividend Policy In Pakistan (evidence from Karachi Stock Exchange non-financial listed firm). *Journal of Independent Studies and Research (MSSE)*, *7*(1), 1-30.

Agrawal, A. and Jayaraman, N. (1994). The dividend policies of all-equity firms: a direct test of the free cash flow theory, *Managerial and Decision Economics*, 15(1), 139-148.

Ajanthan, A. (2017). The relationship between Dividend Payout and Firm Profitability: A study of Listed Hotels and Restaurant Companies in Sri Lanka. *International Journal of Scientific and Research Publications,* 3(6), 1-6.

Akinyomi, O. J. (2014). Influence of competition on Activity-based costing system implementation in Nigeria. *International Journal of Information, Business and Management*, *6*(1), 11.

Al-Kayed, L. T. (2017). Dividend payout policy of Islamic vs conventional banks: case of Saudi Arabia. *International Journal of Islamic and Middle Eastern Finance and Management*, *10*(1), 117-128.

Al-Kuwari, D. (2009). "Determinants of the Dividend Policy in Emerging Stock Exchanges: The Case of GCC Countries", *Global Economy & Finance Journal,* 2(2), 38-63

Al Shabibi, B. K., & Ramesh, G. (2011). An empirical study on the determinants of dividend policy in the UK. *International Research Journal of Finance and Economics*, *80*(12), 105-124

Argy, V. (2013). Macro Economic Theory and Policy. *Routledge Publishers*. *NewYork*.

Arundam, B., &Anupam, D. (2016). Impact of Capital Structure Decisions on Financial Performance during Pre- and Post-recession Period, *Management and Labour Studies,* 40(1), 1-10.

Auerabach, D. (1988). Money, banking and financial markets (3rd Edition). *Maxwell Macmillan International Edition*.

Barclays bank annual report, (2017)

Baker, H. &. smith(2006). How Corporate managers view dividen policy?*Quartely Journal of Business and Economics,* 38 (2), 17-27.

Baker, S. R., Bloom, N., & Davis, S. J. (2016). Measuring economic policy uncertainty. *The Quarterly Journal of Economics*, *131*(4), 1593-1636.

Berk, J. D. (2009). *Fundamentals of Corporate Finance: International Financail Reporting Standards Edition.* Boston: Pearson international edition Prentice Hall Publishers.

Basil, A.N. (2011). The inter-relationship between capital structure and dividend policy: empirical evidence from Jordanian data. *International Review of Applied Economics,* 2(25), 209-224.

Bindra, S. (2013, June 2). Entreprenuers are our economic heroes. *Sunday Nation*, 38. Nairobi.

Bhat, R., & Pandey, I. M. (2007). Dividend decision: A study of managers' perceptions. *Decision*, *21*(1), 67-86.

Bhattacharya, S. (1979). Imperfect information, dividend policy, and "the bird in the hand" fallacy. *Bell journal of economics*, *10*(1), 259-270.

Braun, M., & Sharma, A. (2007). Should the CEO also be chair of the board? An empirical examination of family-controlled public firms. *Family Business Review*, *20*(2), 111-126.

Brearly, R. (2000). *Principles of Corporate Finance(6th ed).* Boston: McGraw.

Brealey, R. and Myers, S.C. (2003). "Principles of Corporate Finance", *McGraw-Hill, New York, NY*.

Bremberger, F., Cambini, C., Gugler, K. P., & Rondi, L. (2013). Dividend policy in regulated firms.

Chowdhury, H. &. (2006). Inflation Dynamics and the Cost Channel of Monetary Transmission, *European Economic Review*. 995-1016.

Central bank of Kenya annual report, (2017)

Cooper, D. R., Schindler, P. S., & Sun, J. (2006). *Business research methods* (Vol. 9). New York: McGraw-Hill Irwin.

De Angelo, H., De Angelo, L. and René M. S. (2006). "Dividend Policy and the earned/contributed capital mix: a test of the life-cycle theory", *Journal of Financial Economics*, 81, 227.

Denis, D. J., & Osobov, I. (2008). Why do firms pay dividends? International evidence on the determinants of dividend policy. *Journal of Financial economics*, *89*(1), 62-82.

D.K, M. (2012). The relationship between monetary policy and performance of the NSE. *Unpublished MBA project University of Nairobi*.

Dornbusch, R. (1976). Expectations and Exchange Dynamics. *Journal on Political Economy*.

Donaldson, G. (1961). *Corporate debt capacity: A study of corporate debt policy and the determination of corporate debt capacity*. Beard Books.

Farrar, D.E. and Selwyn, L.L. (1967). "Taxes, corporate financial policy and return to investors", *National Tax Journal*, Vol. 20, pp. 444-462.

Fama, E. F., & French, K. R. (2002). Testing trade-off and pecking order predictions about dividends and debt. *The review of financial studies*, *15*(1), 1-33.

Frankfurter, G., Wood, B. G., & Wansley, J. (2003). *Dividend policy: Theory and practice*. Elsevier.

Gugler, K (2003). "Corporate Governance, Dividend Payout Policy, and the Interrelation between Dividends, R&D, and Capital Investment", *Journal of Banking & Finance*, Vol. 27, No. 7, pp. 1297-1321.

Gupta, A., & Banga, C. (2010). The Determinants of Corporate Dividend Policy. *Decision (0304-0941)*, *37*(2).

Grullon, G., & Michaely, R. (2002). Dividends, share repurchases, and the substitution hypothesis. *the Journal of Finance*, *57*(4), 1649-1684.

Crutchley, C. E., & Hansen, R. S. (1989). A test of the agency theory of managerial ownership, corporate leverage, and corporate dividends. *Financial Management*, 36-46.

H. Kent Baker, I. J. (2016). How Morrocan Managers view Dividend. *Managerail Finance, Vol. 42 Issue: 3* , 270-288.

Hafeez, A. a. (2009). The determinants of Dividend Policy in Pakistan. *International Research journal of Finance and Economics*.

Ibrahim, E.A (2014). The Impact of Liquidity on the Dividends Policy. *Proceedings of 26th International Business Research Conference,* 7 - 8 April 2014, Imperial College, London, UK, ISBN: 978-1-922069-46-7.

Inagambear, G. H. (2012). *Determinants of Dividend Payout; A study of Swedish Large and Medium Caps.*

Imran, K. (2011). Determinants of dividend payout policy: A case of Pakistan engineering sector. *The Romanian Economic Journal*, *41*, 47-60.

Jafari and Ajayi (2012).Relationship between dividend payout and firm performance a Nigerian case

Jensen, M. C. (1986). Agency cost of free cash flow, corporate finance, and takeovers. *Corporate Finance, and Takeovers. American Economic Review*,*76*(2).

Jensen, M. C., &Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of financial economics*, *3*(4), 305-360.

Kaplan, R. S., & Norton, D. P. (2002). Transforming the balanced scorecard from performance measurement to strategic management: Part I. *Accounting horizons*, *15*(1), 87-104.

Keynes, J. M. (1936). The general theory of employment.

Kimutai, P.K. (2010). The Effect of liquidity on dividend payout by companies listed at the Nairobi Securities Exchange. *Unpublished MBA Project,* University of Nairobi: Nairobi.

Kowaleski, O., Stetsyuk I. and Talavera, O. (2007). "Corporate Governance and Dividend Policy in Poland", *Wharton Financial Institutions Centre Working Paper* No. 07-09.

Kohn, D. a. (2003). Central Bank Talk:Does It Matter and Why. *Federal Reserve Board Finance and Economic Discussion Paper*.

La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. W. (2000). Agency problems and dividend policies around the world. *The journal of finance*, *55*(1), 1-33.

Libhane, N.B. (2015). Determinants of dividend payout ratio: Evidence from Indian companies. *Business and Economic Research, 5(2)* , 97-113.

Lie, E. (2005). Operating performance following open market share repurchase announcements. *Journal of Accounting and Economics*, *39*(3), 411-436.

Linter, J. (1956). Distribution of Incomes of Corporations Among Dividends, Retained Earnings, and Taxes. *American Economic review, Vol 46 No.2* , 97-113.

Litzenberger, R. H., & Ramaswamy, K. (1979). The effect of personal taxes and dividends on capital asset prices: Theory and empirical evidence. *Journal of financial economics*, *7*(2), 163-195.

Loayza & Schmidt-hebbel, 2. (2002). Retrieved June 20th, 2002, from Central Bank of Chile: http://ideas.repec.org/h/chb/bcchsb/v04c01pp001-020.html

Makori, M. (2015). The Effects of Macroeconomic factors on performance of construction and allied companies listed at the NSE. *Unpublished MBA project University of Nairobi*.

Manneh, M. A., & Naser, K. (2015). Determinants of corporate dividends policy: Evidence from an emerging economy. *International Journal of Economics and Finance*, *7*(7), 229.

M.Y, S. K. (2011). Dividend policy and bank performance in Ghana. *International Journal of Economics and Finance*, 202-207.

Musa, K. (2011). The Relationship between interest rates and financial performance of commercail banks in Kenya.

Musiega, M. G., Alala, O. B., Douglas, M., Christopher, M. O., & Robert, E. (2013). Determinants Of Dividend Payout Policy Among Non-Financial Firms On Nairobi Securities Exchange, Kenya. *International Journal of Scientific & Technology Research*, *2*(10), 253-266.

Miller, M. H., & Modigliani, F. (1961). Dividend policy, growth, and the valuation of shares. *the Journal of Business*, *34*(4), 411-433.

Morris, R. D. (1987). Signalling, agency theory and accounting policy choice. *Accounting and business Research*, *18*(69), 47-56.

Myers, S. A. (1984). Corporate Financing and Investment Decisions when Firms have Information and Investors Do not have. *Journal of Financial Economics, Vol 13*, 187-221.

Myers, S. (1977). "The Capital Structure Puzzle", *Journal of Finance*, Vol. 39, No. 3, pp. 575-592.

Njoroge, F. K. (2011). The relationship Between Interest Rates and Financail Performance of Firms Listed at the Nairobi Securities Exchange. *Unpublished MBA Project, University of Nairobi*.

National bank annual report, (2017)

Noh, A.B.M. (2009). The Impact of Macroeconomic Variables on Firm's Performance:

Nuhu, E., Musah, A., &Senyo, D.B. (2014). Determinants of Dividend Payout of Financial Firms and Non-Financial Firms in Ghana. *International Journal of Academic Research in Accounting, Finance and Management Sciences,* 4(3), 109–118. Evidence from Malaysian GLC. *Unpublished MBA project, University of Kwalalumpur.*

Pandey, I. M. (2004). Dividend Behaviour of Indian Companies Under Monetary Policy Restrictions. *Indian Institute of Management Ahmedabad*.

Podrug, N., Filipovic, D., & Milic, S. (2010). Critical Overview Of Agency Theory. *Annals of DAAAM & Proceedings*.

Purmessur, R. D., & Boodhoo, R. (2009). Signalling Power of Dividend on Firms' Future Profits: A Literature Review.

Pruitt, S. W., & Gitman, L. J. (1991). The interactions between the investment, financing, and dividend decisions of major US firms. *Financial review*, *26*(3), 409-430.

Rao, D.T. (2016). Relationship between macroeconomic factors and financial performance of five listed firms in the energy and petroleum sector of the NSE. *Strathmore University.*

Saunders, A. a. (2008). Financial institutions management: Arisk management approach(6th Edition). . *The McGraw-Hill , New York*.

Smith, C.W. and Watts, R.L. (1992). ‘‘The investment opportunity set and corporate financing, dividend, and compensation policies’’, *Journal of Financial Economics*, Vol. 32, pp. 263-292.

Takahashi, F. (1971). Money Supply and Economic Growth. *Econometrica, Vol .39,No.2*.

Tamrin, M., Rahman M., Sudirman, Arfah, A. (2017). Effect of profitability and dividend policy on corporate governance and firm value: Evidence from the Indonesian manufacturing Sectors.*IOSR Journal of Business and Management,* 19(10), 66-74.

Uwuigbe, U., Jafaru, J., & Ajayi, A. (2012). Dividend policy and firm performance: A study of listed firms in Nigeria. *Accounting and Management Information Systems*, *11*(3), 442-454.

Van der Weide, M. E. (1983). Against fiduciary duties to corporate stakeholders. *Del. J. Corp. L.*, *21*, 27.

Wasike, T. W., & AMBROSE, D. J. (2015). Determinants of dividend policy in Kenya. *International journal of arts and entrepreneurship*, *4*, 71-80.

Wanjiru, M. Z. (2013). The Effects of Macroeconomic Variables on the Dividend Payout of Firms Listed at the Nairobi Securities Exchange. *Unpublished MBA project University of Nairobi*.

Yegon, C., Cheruiyot, J., & Sang, J. (2014). Effects of dividend policy on firm’s financial performance: Econometric analysis of listed manufacturing firms in Kenya. *Research Journal of Finance and Accounting*, *5*(12), 136-144.