Factors Affecting Dividend Payout in Listed Commercial Banks in Kenya

Mark Simiyu Wekesa

Department Of Accounting and Finance, the School Of Business, The Catholic University of Eastern Africa, Kenya

*Corresponding author
Mark Simiyu Wekesa

Abstract: Various models have been developed to help firms analyze and evaluate the perfect dividend policy and there is no agreement between these schools of thought over the factors that affect dividend payout. The dividend policy decision is one of the most important decisions in any organization. This study sought to establish the factors that affect dividend payout of listed commercial banks in Kenya. Specifically profitability, liquidity, firm size and past dividend were determined if they affected dividend payout among listed commercial banks in Kenya. The study was based on the Bird in Hand Theory. A correlational research design was used to examine relationship among the variables. The target population for this study consisted of all listed commercial banks in Kenya. Purposive sampling procedure was used to select listed commercial banks for the study. The study employed secondary data which was obtained from the financial statements of the commercial banks for a period of five years ranging from 2012 to 2016.. The study showed that profitability, liquidity, firm size and past DPS accounted for 77.69% of variations in dividend payout for listed commercial banks. All the four factors were found to be significant in affecting dividend payout for the listed commercial banks. Profitability and past dividend per share were found to be positively correlated with dividend payout while liquidity and firm size were found to be negatively correlated with dividend payout. The researcher recommends more research to be done taking into consideration other factors. These include factors such as the commercial banks management, legal environment and competition within the banking industry.

Keywords: Liquidity, Size of the Firm, Dividend Payout, Listed Commercial Banks

INTRODUCTION

There is no agreement between schools of thought over the factors that affect dividend payout. One school consists of authors like James E. Walter and Myron J. Gordon, who believe that current cash dividends are less risky than future capital gains. Thus, they say that investors prefer those firms which pay regular dividends and such dividends affect the market price of the share. Another school linked to Modigliani and Miller holds that investors don't really choose between future gains and cash dividends [1, 2]. The firm paying out dividends is obviously generating incomes for an investor, however even if the firm takes some investment opportunity then the incomes of the investors rise at a later stage due to this profitable investment.

The attention of economists and scholars of management have been attracted by the field of dividend policy culminating into theoretical modeling and empirical examination. In finance dividend policy is a complex aspect and is among the top ten perplexing issues in finance as suggested by Brealey and Myers [3] argues. The maximization of the wealth of shareholders is the ultimate goal of company's management, which will result in maximizing firm's value as measured by the price of the company's common stock [4]. The expectations of dividends by shareholders helps them determine the share value, therefore, dividend policy is a significant decision taken by the financial managers of any company [5]. Coming up with a dividend policy is challenging for the directors and financial managers of a company, because different investors have different views on present cash dividends and future capital gains[6].

In Kenya, fifty eight companies are listed in the Nairobi Securities Exchange (NSE), which is the only stock exchange firm in the country [7]. Listed companies fall into two main segments, that is, the main market segment and the alternative investment market segment [8]. 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 [9]. This makes

dividend policy worthy of serious management attention. According to a study done by Aduda and Kimathi [9], most firms, 62% to be precise, on the Nairobi Securities Exchange (NSE) adopt a stable and predictable dividend policy where a specific amount of dividend per share is paid each year. In some years, there is a slight adjustment of the dividend paid after an increase in earnings, but only by a sustainable amount [9].

Muriithi [10] affirms that dividend policy is one of the most important financial decisions that corporate managers encounter. Omollo and Kimathi [11] agree to the fact that a firm ought to pay dividends to shareholders if it cannot identify suitable investments which would bring higher returns than those expected by the shareholders. Furthermore, Maina [8] argues that due to informational asymmetries, cuts in dividends will have a greater negative impact on shareholder's wealth than will positive effects associated with dividend increases. Maina [8] points out that in the mid-1990s retained earnings constituted 56% to 76% of the net growth in bank equity; currently, they represent about 30%. This study focuses on banks because volatility of earning series is assumed to be higher for banks than other industrial firms due to the accounting practices related reasons. This trend triggered a lot of competition in the banking industry. Banks have managed to weather stiff competition to stand out as among the most successful Kenyan businesses today.

Empirical Review

A dividend policy is an action plan adopted by a firm's directors whenever dividend decisions are to be made. It determines the division of earnings between shareholders (dividend payment) and the company (reinvestment). Dividend policies in practice are designed to suit each firm's requirements necessary to achieve firm specific goals. The main approaches include: residual, stable predictable, constant payout or low regular plus extra policy. Dividend policies assist a firm to vary dividend payment from period to period and from year to year depending on the cash flows and the financing requirements [12].

Profitability and Dividend Payout

Previous research explored the relationship between dividend payout and profitability. Amidua and Abor [13] and Najjar [14] found in his research that like in the developing countries, dividend payment in companies of Jordan is also effected by profitability. Kun Li and ChungHua [15] asserted that firm's profitability and size significantly affect the payout ratio.

Current earnings which are also known as profit after tax is representing the capacity of corporation to pay dividends and thus it has a positive relationship with dividends [16]. Besides that, the level of profit is considered as an invariable starting point in the management's consideration of whether dividend should be paid or not in any given year [17]. A study by Zhou &Ruland [18] revealed that high dividend payout firms tend to experience strong future earnings but relatively low past earnings growth despite market observers having a contradicting view. The findings of another study done by Arnott & Asness [19] also revealed that future earnings growth is associated with high rather than low dividend payout. They concluded that historical evidence strongly suggests that expected future earnings growth is fastest when current payout ratios are high and slowest when payout ratios are low.

Arnott & Asness [19] suggests that the positive relationship between current dividend payout and future earnings growth is based on the free cash flow theory. Low dividend resulting in low growth may be as a result of suboptimal investment and less than ideal projects by managers with excess free cash flows at their disposal. This is consistent with the agency cost theory. Another explanation by Arnott & Asness [19] for the positive relationship between dividend payout and growth in future earnings is that managers are reluctant to cut dividends. A high payout ratio indicates management's confidence in the stability and growth of future earnings and a low payout ratio suggests the opposed. The positive relationship is also driven by sticky dividends combined with mean reversion in more volatile earnings [19].

However, Farsio et al. [20] argue that no significant relationship between dividends and profitability hold in the long run and studies that support this relationship are based on short periods and therefore misleading to investors. They proposed three scenarios that would render the long-term relationship of dividends and future earnings insignificant. Firms that pay high dividends without considering investment needs may therefore experience lower future earnings [20]. This is a case of rising dividends followed by declining earnings. An increase in dividends may be the result of good performance in previous periods which may continue into the future [20]. This supports the view of a positive causal relationship between current dividends and future earnings. From these scenarios, they argue that the overall long-term relationship is insignificant since there is a positive relationship between dividends and future earnings in some periods and a negative relationship in other periods. Nissim&Ziv [21] showed that dividend increases were directly related to future increases in earnings in each of the two years after the dividend change. What therefore happens when there is a steady increase in dividends for a given number of years? Nissim&Ziv [21] found that dividend increases and decreases are not symmetric.

Lie [22] argues that firms that increase payouts have excess financial flexibility and exhibit positive concurrent income shocks and decreases in income volatility, but there is limited evidence of subsequent performance improvements. His study revealed that firms that increase payouts have lower past volatility of operating income than other firms.

Liquidity and Dividend Payout

Liquidity is one of the important factors being considered in dividend payout decisions because dividend payment generates cash outflow. Komrattanapanya and Suntrauk [23] found that dividend payout ratio and liquidity have insignificant relation. While John and Muthusamy [24] concluded that there is a significant relationship between dividend payout and liquidity. Ahmed and Javid [25] elaborate that liquidity position is an important determinant of dividend payout.

Cash dividend distribution does not only depends on the profitability of firms but also depends on the free cash flow which is the amount of operating cash flow left over after the payment for capital expenditures [13]. Besides that, Chay and Suh [22] also consider cash flow as a determinant of dividend payments where firms facing high levels of cash flow uncertainty are likely to pay low dividends fearing cash shortfalls in the future. This statement correlates to Njuguna [10] in his research report which stated that more than two-third of Chief Finance Officers of dividend-paying firms stated that stability of future cash flow is an important factor affecting dividend decision.

Firm size and Dividend Payout

Companies with big size and good cash flows offer higher dividends than the companies of small size. As Najjar [25] investigated in Jordan and concluded that in developing countries firm size affects the dividend payout decisions. Another research conducted by Perretti, Allen and Weeks [26] and concluded that the firm size partially explains the dividend policies.

Keen [27] found that the age and size of a business has a bearing on affiliates' dividend practices. Older affiliates provide a greater share of their earnings to the parent company presumably because as the affiliate matures, it has less investment opportunities while at the same marginal rates elsewhere in the world in newer locations are greater.

Past dividends and Dividend Payout

Lintner [28] was the first one to investigate the partial adjustment model of dividends. Lintner's behavioural model suggests that the change in dividends is a function of the target dividends payout less the last period's dividends payout multiplied by the speed of an adjustment factor. The target dividends paid is a fraction of the current period's earnings. In addition he found that the most important factor of a company's dividends policy was a significant change in earnings. His model explained 85 percent of the changes in dividends for the sample of his research. Fama and French [29] tested other models for explaining dividends behaviour and their findings also supported the view of Lintner which is shareholders prefer the stable dividends paid rather than a significant change in dividends.

Critical Review of Empirical Studies

The firm value is independent of its dividend policy because it is determined by selecting optimal investments [2]. Thus a firm dividend policy does not influence the wealth of shareholder. The theory of the bird in the hand argues that because of minimum risk investors will always prefer dividends over capital gains [4]. Thus researchers are puzzled by the question, "whether shareholder's wealth is affected by dividend policy" for many years. A firm's value is not necessarily influenced by the increase or decrease in dividend payouts. A survey conducted by Farrelly, Baker, and Edelman [30] found out that, based on the view of managers, there is an optimal level of dividend payouts, and firm' is influenced by dividend payouts. The same results were found by Powell [31] in a survey on whether firm value and wealth of shareholder is affected by dividend policy. The future profitability of firms is assessed by the information regarding the announcements of cash dividends.

Baker, Farrelly and Edelman [30] made a survey for 562 New York Stock Exchange (NYSE) firms about dividends polices in 2003. Multiple Regression Analysis was applied in the study. They received 318 responses from utility, manufacturing, and wholesale/retail firms; found that the important determinants of dividend payments were the expected future earnings and the pattern of past dividends. The view also matched with Fama and French [29] since the research pointed out that the factor explaining the dividends should be important because the price of stock is the present value of its future dividends from the intrinsic model. The study further showed that these sophisticated investors believed that dividend policy affected stock prices.

Powell [31] carried out a study titled "Determinants of Corporate Dividend Policy in the USA: and tested for 20 factors which were influencing the dividends policy and found that level of current and expected future earnings,

continuity of past dividends, the concern about maintaining/increasing stock price, the change in dividends may provide a false signal and stability of cash flow, these five factors have a significant effect on dividends policy. Powell concluded that where the cash flow is uncertain and companies do not meet the target dividends, the share prices declined. Gill and Tibrewala [24] analyzed the American service and manufacturing firms and found that the dividend payout ratio is a function of profit margin, sales growth, debt-to-equity ratio and tax.

Hussainey [32] examined the relationship between share price volatility and dividend policy in UK. Size, level of debt, earning volatility and level of growth as control variables were added to Baskin [33] model. A firm's common stock price is the discounted value of future cash flow, which is the expected stream of future dividends until the firm is liquidated. Ahmed and Javid [25] find out the determinants of dividend payout policy of financial firms in the United Kingdom during the period of 2001 to 2006. The study supported Linter's policy.

Nazir [34] conducted a study on the determinants of stock price volatility in Karachi Stock Exchange. He reported that share price volatility has significant negative association with dividend yield and dividend payout. Size and leverage have non-significant negative effect on share price volatility also. Suleman [35] studied the association of dividend policy with share price volatility in Pakistan. The findings showed that share price volatility has significant positive relationship with dividend yield. The findings of the study revealed that share price volatility has significant negative relationship with growth. Santhi and Lee [36] carried out a study to examine the leading determinants that affected the dividend payment decision by the company management in Malaysia listed companies for food industries under the consumer products sector. The study confirmed the fact that debt equity ratio and past dividend per share were the important determinants of dividend payment.

Pruitt and Gitman [37] did a survey 100 largest South African firms in terms of investment, financing, and dividends decisions in their firms. The study result showed that the important determinants of dividends policy are the current and past profit level, the volatility of earnings and the expected future earnings in terms of the growth in earnings. Pruitt and Gitman [37] also found that prior years' dividends are the important influence on current dividends. The evidence proved the findings in Baker, Farrelly and Edelman [30] and Lintner's [38] behavioral model were consistent with each other. In a study that examines whether dividend policy influences firm performance in the Ghana Stock Exchange by use of causal research design, Amidu [16] found that dividend policy affects firm performance especially the profitability measured by the return on assets. The results showed a positive and significant relationship between return on assets, return on equity, growth in sales and dividend policy. Olantundun [39] studied the determinants of dividends in Nigeria using the Lintner-Brittain model and its variants on the pooled cross sectional / time series data for the full sample of observations from 2003-2008. The results of the study showed that there are no significant interactions between the conventional Lintner/Brittain model and dividend decisions of Nigerian firms. They concluded that the dividend behaviour of Nigerian firms depends on growth prospects, level of gearing and firm's size.

Karanja [40] studied dividend practices of publicly quoted companies in Kenya by collecting data through a questionnaire and obtained information about the kind of dividend policies managers of the quoted companies pursued. He found three factors to be the most important determinants of dividend policy i.e. cash, liquidity and the amount of earnings. The study concluded that liquidity is the most important factor in determining dividends. Karanja [41] used a particular industry to determine the factors of dividends policy. However, there was no sign to show the difference obviously between cross section and particular sectors.

Olweny [15] carried out a study that investigated the extent to which dividend announcements had information content, its effect on firm value and what this implied on the semi strong efficiency of the Nairobi Stock Exchange (NSE). showed that, for the analyzed firms, dividend announcements did indeed convey useful information about the future value of a firm. This empirical investigation came up with the following findings: Past Dividend announcements have pertinent information, which is consistent with Modigliani and Miller [2] information content hypothesis. Second, the information content in dividend announcements significantly affected the firm value as shown by large spikes in the graphs. Third the NSE is not semi strong from efficiency and therefore market participants can make abnormal profits by trading on public information, such as dividend announcements.

Mahalang'ang'a andOchuodho [39] carried out a research which sought to establish the relationship between dividend payout and firm performance among listed firms in the Nairobi Securities Exchange. The findings indicated that dividend payout was a major factor affecting firm performance. Their relationship was also strong and positive. This therefore showed that dividend policy was relevant. Much research on the dividend policy and shareholder's wealth has been but this has mainly been in the developed countries such as USA, UK and Asia. Empirical works that highlights the dividend policy puzzle in developing markets is therefore of essence.

Knowledge gap

Most empirical researches reviewed above used event studies, panel data, cross sectional industries as a database. Some researchers used a particular industry to determine the factors of dividends policy. Many have used secondary data and a few primary data. For analysis most have used multiple linear regression analysis. However, there were no signs to show the difference between cross section and particular sectors. As the preview of the empirical evidence, most researches used similar methodology for testing the dividend policy; however, there has been a question between these researches which is whether the determinants of dividend policy are consistent or not within the examination periods. If the answer of the question is yes, then we can find out which factors may have significant influence to dividend policy and they may have a trend of dividend policy that means what thing companies take into account for determining the dividend policy. If not, we still step further in order to determine which factors are affecting the dividend payout. In addition, if the factors of the dividend policy are inconsistent, it means that something still is influencing the dividend policy outside the current researches. Most empirical researches reviewed above show conflicting results on the factors that affect dividend payout. Some factors are found to be significant in some studies while in others they are not significant. Further, not all the four factors under this study are considered. This study aims to address these gaps.

Statement of the problem

Payment of dividends is a central tenet of a bank's financial management. Kenyan banks therefore need to avoid a cut in cash dividends because a dividend cut connotes a weakening in the soundness of a bank. Considering that quoted companies in Kenya, more specifically banks, enjoy public trust and investor confidence due to the stringent governance and reporting requirements, which in most cases are reflected in the positive earnings and growth that they generate for their shareholders, it would be useful to study the key factors that drive their dividend policies. Therefore, the present study mainly analyzed the factors that affect dividend payout of listed commercial banks in Kenya.

Objectives of the Study
- To establish whether profitability affects dividend payout of listed commercial banks in Kenya.
- To determine whether liquidity affects dividend payout of the listed commercial banks in Kenya.
- To establish whether firm size affects dividend payout (DPO) of the listed commercial banks in Kenya
- To find out whether past dividend per share (DPS) affect dividend payout of listed commercial banks in Kenya.

METHODOLOGY

This study used a correlational research design. A correlational study is a scientific study in which a researcher investigates associations between variables. The target population for this study consisted of all listed commercial banks in Kenya. These were Barclays Bank, CFC Stanbic, Diamond Trust Bank, Housing Finance, Kenya Commercial Bank, National Bank of Kenya, NIC Bank, Standard Chartered Bank, I&M Bank, Equity Bank and Co-operative Bank of Kenya [8]. The six largest banks in Kenya have captured approximately 80 percent of the retail-market. This leaves approximately 20 percent market share for the remaining banks, which are left to compete with each other vigorously for little market gain [42].

DATA COLLECTION PROCEDURES

In Kenya all firms quoted on the NSE are required by law to publish their financial statements to the public. This enabled the researchers to easily gain access to secondary data needed by use of document review. Data with respect to DPO, Profitability, Firm Size, Liquidity and Past dividend for a period of five years from 1st January 2012 to 31st December 2016. Only listed commercial banks having provided cash dividend for at least 5 years by 2016 were selected for this study. The researcher believed five years was adequate to study trends in financial performance and dividend payout for the commercial banks under review. The criteria for the listed commercial banks were: Cash dividend must have been paid for the year(s) under consideration and declared cash dividends for the year prior to the year under consideration. Only 6 of out of the 11 listed commercial banks met the required criteria and hence were considered for the study.

DATA ANALYSIS

The collected data was analyzed using both Descriptive and inferential analysis techniques. The relationship between independent variables with the dependent variables was empirically analyzed using multiple Linear Regression. The regression model was used to establish the effect to which firm size; profitability; liquidity and past dividend affect dividend payout. The Linear Regression model used is as follows;

$DPOi = \alpha_0 + \alpha_1 Profitability + \alpha_2 Liquidity + + \alpha_3 FirmSize + \alpha_4 PastDividend + e$
Where DPOi = Current dividend payout ratio in year i

Profitability – measured by profit after tax as reported for the particular year.

Liquidity – measured by overall liquid assets and liabilities which included cash positions and claims.

Size of the firm – measured by the total assets

Past Dividend – the dividend paid in the previous year relative to the year under consideration.

α1; α2; α3; α4 = regression coefficient (marginal rates on DPO for the respective determinants of dividend payouts)
e = error term

Findings

For the listed commercial banks to be considered for the study, they needed to have met the following criteria; i) Cash dividend must be paid for the year(s) under consideration and; ii) Declared cash dividends for the year prior to the year under consideration. However, only 6 of out 11 the listed commercial banks met the required criteria and hence were considered for the study.

Descriptive Statistics

Descriptive Statistics for Co-op Bank

Table-1: Descriptive Statistics for Co-op Bank

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
DPO	5	.27	.85	.41	.244
Profitability	5	7.720	12.68	9.84	2.23
Liquidity	5	.33	.37	.35	.016
FirmSize	5	200.00	352.00	281.80	66.96
PastDPS	5	.40	.80	.54	.152
Valid N (listwise)	5				

Table-2: Descriptive Statistics for Barclays Bank

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
DPO	5	.50	.73	.63	.083
Profitability	5	7.40	8.74	8.11	.57
Liquidity	5	.28	.37	.32	.037
FirmSize	5	185.00	260.00	223.60	29.29
PastDPS	5	.70	1.00	.94	.13
Valid N (listwise)	5				

Table-3: Descriptive Statistics for Equity Bank

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
DPO	5	.38	.46	.42	.033
Profitability	5	12.08	17.30	15.29	2.44
Liquidity	5	.30	.48	.382	.082
FirmSize	5	243.00	474.00	353.20	97.75
PastDPS	5	1.00	2.00	1.51	.403
Valid N (listwise)	5				

Table-4: Descriptive Statistics for KCB

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
DPO	5	.31	.46	.40	.065
Profitability	5	12.20	19.78	16.56	3.31
Liquidity	5	.30	.36	.33	.030
FirmSize	5	368.00	595.00	480.40	99.84
PastDPS	5	1.85	2.00	1.95	.071
Valid N (listwise)	5				

Table-5: Descriptive Statistics for NIC Bank

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
DPO	5	.14	.19	.168	.019
Profitability	5	.0304	.05	.038	.007
Liquidity	5	.29	.36	.33	.029
FirmSize	5	.108	.17	.14	.027
PastDPS	5	.50	1.25	.95	.27
Valid N (listwise)	5				

Table-6: Descriptive Statistics for Standard Chartered Bank

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
DPO	5	.54	.94	.67	.176
Profitability	5	6.34	10.44	8.63	1.53
Liquidity	5	.39	.57	.47	.083
FirmSize	5	195.00	250.00	224.20	20.22
PastDPS	5	11.00	17.00	14.40	2.67
Valid N (listwise)	5				

Table-7: Descriptive statistics for the listed commercial banks

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
DPO	5	.17	.67	.45	.18
Profitability	5	.04	16.56	9.75	5.92
Liquidity	5	.32	.47	.36	.056
FirmSize	5	.14	480.40	260.56	159.92
PastDPS	5	.54	14.40	3.38	5.42
Valid N (listwise)	5				

Table 7 above presents the results of the descriptive statistics of the dependent variable and the four independent variables for the listed commercial banks combined for the five year period from 2012 to 2016. The average dividend payout for the listed commercial banks ranged from 0.17 to 0.67 with a mean of 0.45 and a standard deviation of 0.18. Profitability ranged from a minimum of 0.04 to a maximum of 16.56, with a mean of 9.75 and a standard deviation of 5.92. Liquidity ranged from a low of 0.32 to a high of 0.47 and had a mean of 0.36 and a standard deviation of 0.056. Firm size ranged from 0.14 to 480.40 with a mean of 260.5 and a standard deviation of 159.92. Past DPS ranged from 0.54 to 14.40 with a mean of 3.38 and a standard deviation of 5.42.

REGRESSION ANALYSIS

Table- 8: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
			Model Summary	
1	.8814[a]	.7769	.7208	.4777
a. Predictors: (Constant), PastDPS, Profitability, Liquidity, FirmSize				

Table 8 above shows a model summary of regression analysis between independent variables (past DPS, liquidity, profitability and firm size) and the dependent variable (Dividend Payout). The value of R was found to be 0.8814, while that of R square was 0.7769. The value of the adjusted R square was 0.7208 and that of the standard error of the estimate was 0.4777. From the findings, it was established that 77.69% of variations in dividend payout for the listed commercial banks at the NSE during the study period were attributed to variations in the four independent variables of the study.

Table-9: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
			ANOVA[a]			
1	Regression	.082	4	.021	17.07	.887[b]
	Residual	.084	0	.084		
	Total	.166	4			
a. Dependent Variable: DPO						
b. Predictors: (Constant), Profitability, Liquidity, Firm Size , Past DPS						

The research data statistics were analyzed using the SPSS software and the output presented in table 9 above. From the analysis of variance (ANOVA) statistics depicted above, at 5% the p-value of 0.887 is greater than the alpha value of 0.05 meaning that there are is significant differences between the means the independent variables under investigation of the listed commercial banks.

CORRELATION ANALYSIS

The correlation coefficient represents the linear relationship between explainer variable and dependent variable. The p-values represent the probability of error that is involved in accepting the observed result as valid that is as a representative of the population. Thus the focus is to test the significance of the four variables that affect DPO and their relationship degree

Table-10: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		Coefficients[a]				
		B	Std. Error	Beta		
1	(Constant)	1.143	3.602		.317	.804
	Profitability	.043	.205	1.400	.210	.868
	Liquidity	-2.684	11.188	-.832	-.240	.850
	FirmSize	-.001	.007	-.984	-.155	.902
	PastDPS	.046	.108	1.357	.425	.744
a. Dependent Variable: DPO						

From the regression findings in table 10 above, the model equation was;

$$DPO = 1.143 + 0.043 Profitability - 2.684 Liquidity - 0.001 Firm Size + 0.046 PastDPS$$

According to the coefficient table above, at 5% significance level, past DPS had a significance value of 0.744, liquidity had 0.850, and profitability had 0.868 while firm size had 0.902. It is thus evident that all the variables were significant as their significance values were more than 0.05. and the most significant among the four were Firm size and profitability. However, liquidity and firm size were negatively correlated with dividend payout while profitability and past DPS had a positive correlation with dividend payout. This is as evidenced from table 10 above which indicates that profitability and past DPS had coefficient values of 0.043 and 0.046 respectively while liquidity and firm size had coefficient values of -2.684 and -0.001.

Further, the table indicates that, taking all independent variables (past DPS, liquidity, profitability and firm size) constant at zero, dividend payout will be

1.143. The data findings analyzed also showed that holding all other independent variables constant, a unit increase in past DPS will lead to a 0.046 increase in dividend payout while a unit increase in liquidity will lead to a 2.684 decrease in dividend payout. The table also indicates that a unit increase in profitability will lead to a 0.043 increase in dividend payout while a unit increase in firm size will lead to a 0.001 decrease in dividend payout. Profitability and past DPS had a positive effect on dividend payout while liquidity and firm size had a negative influence. Notable also is Liquidity has the greatest influence on dividend payout on dividend payout for commercial banks listed at the NSE during the study period.

DISCUSSION OF THE STUDY FINDINGS

From the results analysis, it can be observed that the listed commercial banks had an average dividend payout of 0.45 over the five year period under review, that is, from 2012 to 2016. Co-operative Bank had an average dividend payout of 0.41, Equity Bank 0.42, KCB 0.40, and NIC Bank 0.168 which was below the average for the listed commercial banks of 0.45. on the other side Barclays Bank had an average dividend payout of 0.63, Standard Chartered Bank 0.67 which was above the average for the listed commercial banks of 0.45. NIC bank has the smallest dividend payout reflecting that farm size is critical in paying dividends and probably firms will only pay cash dividends after exhausting the their investments in all positive NPV projects at hand. This is well done at maturity stage of firm and that firms pay dividends generously just at maturity stage.

Average profitability for the listed commercial banks was Kes. 9.75 billion for the years 2012 to 2016. Co-operative Bank Kes. 9.84 Billion, Equity Bank, Kes. 15.29billion, KCB Kes. 19.78 billion Over the same period which was above the average for the listed commercial banks. On the other hand Barclays Bank had Kes. 8.74 billion, NIC Bank Kes. 0.038 Billion and Standard Chartered Bank Kes. 8.63 billion Which was below the average for the listed commercial banks of Kes? 9.75 billion. This shows locally incorporated banks were more profitable than the foreign counterparts in Kenya.

Average liquidity for the listed commercial banks was 0.36 over the five year period under review, that is, from 2012 to 2016. Co-operative Bank had an average liquidity of 0.35, Barclays Bank 0.32, below the average for the sample. KCB 0.33, NIC Bank 0.33 over the same period reflecting a liquidity ratio below the average for the listed commercial banks. On the other hand Equity Bank had 0.382, Standard Chartered Bank 0.47 which is above average for the sample. This shows that liquidity is less significant than profitability but it has more influence than profitability in explaining the extent to which a firm pays cash dividends.

Average firm size for the listed commercial banks was Kes. 260.56 billion For the years 2012 to 2016. Co-operative Bank had an average firm size of Kes. 281.80 billion, Equity Bank Kes. 353.20 billion, KCB Kes. 480.40 billion Over the same period which was above the average for the listed commercial banks. On the other hand Barclays Bank had an average firm size of Kes. 223.60 billion, NIC Bank Kes. 0.14 Billion and Standard Chartered Bank Kes. 224.20 billion Over the same period which was below the average for the listed commercial banks of Kes. 260.56 billion. NIC bank being the smallest had the smallest dividend payout.

All the four factors under study were found to be significant factor affecting dividend payout 5% level of significance.

Interpretation of the Study Findings

During the five year study period, the findings indicate that all the four independent variables (profitability, liquidity, company size and past DPS) accounted for 77.69%% of the variations in the dependent variable (dividend payout) for commercial banks listed at the NSE. The research model therefore, showed that the four independent variables were strong predictors of Dividend payout while others could account for at least 23% of the variations.

Firm size was found to be the leading significant factor affecting dividend payout with a p-value of 0.902 at 5% level of significance. This was followed by profitability with a p-value of 0.868 at 5% level of significance. Liquidity and past DPS were third and fourth as factors affecting dividend payout with p-values of 0.850 and 0.744 respectively at 5% level of significance. This means that commercial banks in Kenya will only pay dividends after reaching a certain growth size probably from growth stage to maturity, they will also pay dividends from profits and not from capital given that there is substantial liquidity and that past dividends are the last among the four variables under consideration. However past dividends have a greater influence on dividends payout than profitability probably because commercial banks would want to keep steady payments of cash dividends.

The study established that profitability had a positive correlation with dividend payout as well as being a significant variable in determining dividend payout. These results are also consistent with those of Juma'h and Pacheco [43] and Abu [44] who found that profitability was an important variable that also had a positive effect in determining dividend payout.

The study also revealed that liquidity was a significant variable in determining dividend payout. This as well agrees with findings from the study done by Abu [44] but contradicts the findings of Anupam [15] who contended that liquidity does not have any

significant influence on dividend payout. Further, the study indicated that company size was not a significant variable in determining dividend payout. The study validated the findings of Bulla [45] but contradicts the results of the study done by Eriots [46] who found company size to be a significant variable in determining dividend payout. Hence the finding of this study is a contradiction of findings of Anupam [15] and Bulla [45]

Firm size was found to be the most significant factor affecting dividend payout. Profitability was the second most significant factor affecting dividend payout. Logically, this holds since we don't expect companies making losses to declare or distribute any earnings in form of dividends. Liquidity was found to have a negative impact on dividend payout. This is so because dividends are paid only if a company is liquid enough and is able to meet its obligations as they fall due and thus liquidity is a prerequisite for dividend payout for commercial banks listed at the NSE. Firm size had the least negative effect on dividend payout for commercial banks listed at the NSE. This can be attributed to the fact that small firms in most cases have more investment opportunities than their well established and well-funded large mature companies.

Summary of findings and conclusions
This study aimed at establishing the factors affecting dividend payout of listed commercial banks in Kenya.

Summary of the Findings
Profitability as measured by Net profit after tax was found to be a significant factor affecting dividend payout for the listed commercial banks. This confirms the studies done by Santhi and Lee [36] and Pruitt and Gitman [37] who confirmed the fact that profit after tax was an important determinants of dividend payment decision. The findings are in agreement with Karam and Puja Goyal [40] whose findings showed that current earnings which are also known as profit after tax represents the capacity of corporation to pay dividends and thus it has a positive relationship with dividends. Besides that, the level of profit is considered as an invariable starting point in the management's consideration of whether dividend should be paid or not in any given year. Dividends are important to shareholders and potential investors in showing the earnings that a company is generating. Healthy dividends payouts thus indicate that companies are generating real earnings rather than manipulating books [47]. And this is the case with listed commercial banks at NSE.

The findings also concur with Amidu [16] who in his study showed a statistically significant relationship between profitability and dividend payout. Amidu concluded that positive changes in dividends payouts are associated with positive changes in profitability.

From this study, the regression results showed that profitability was a significant factor affecting dividend payout with a p-value of 0.868 at 5% level of significance. Further, the results showed that profitability and dividend payout were positively related. It was observed that for the listed commercial banks, liquidity and dividend payout were negatively correlated meaning an increase in liquidity ratio was accompanied by a decrease in dividend payout and vice versa. Liquidity was further found to be a significant factor affecting dividend payout with a p-value of 0.850 at 5% level of significance.

From the study findings, the results showed that firm size as measured by total assets was a significant factor affecting dividend for the listed commercial banks under study with a p-value of 0.902 at 5% level of significance. It was indeed the most significant factor of the four factors under review. The findings concur with Ahmed and Javsid [25] who found that the size of the firm has an impact on DPO. On the contrary, listed commercial banks with a small asset book prefer to invest in their assets rather than pay dividends to shareholders in order to grow the asset book.

The regression results showed that for majority of the listed commercial banks on the NSE, past dividend per share was a significant factor affecting dividend for the listed commercial banks under study with a p-value of 0.744 at 5% level of significance. The findings agree with Baker, Farrelly and Edelman [30] who in their study found that past dividend per share was one of the important determinants of dividend payout. The findings further concur with Ahmed and Javid[25] who found that firms rely on past dividend per share to set their dividend payments. The listed commercial banks were referring to their previous dividend when deciding on the current dividend and these companies had a lower fluctuating dividend per share. The banks tried to maintain a stable and consistent dividend flow in order to avoid shareholder's dissatisfaction when they compare the current dividend declared with the previously declared dividend. If the company didn't maintain a consistent dividend flow, the dividend payment would fluctuate accordingly to the current firm's performance where it will show an unstable performance of the company since the dividend payment is declared from the company's retained earnings.

CONCLUSION
In conclusion, the study confirmed that profitability, liquidity, firm size and past DPS accounted for 77.69% of variations in dividend payout for listed commercial banks. All the four factors were found to be significant in affecting dividend payout for the listed commercial banks. Profitability and past dividend per share were found to be positively

correlated with dividend payout while liquidity and firm size were found to be negatively correlated with dividend payout.

A central tenet of bank dividend payout decision should take into consideration profitability, liquidity, firm size and past DPS as proved by the study findings. Finance managers and dividend policy makers of the Kenyan banking sector should therefore not ignore these factors. Based on the results of this study, profitability, liquidity, firm size and past DPS were all found to be significant factors affecting dividend payout and should be emphasized and considered by all banks when deciding on the dividend payment. The consideration of these four factors as key factors affecting dividend payout is essential in providing and maintaining a reasonable policy that takes care of the benefits for both company and shareholders.

Suggestions for further Research

As always the case in any scientific study or research, one cannot write about anything and everything. One has to restrict him or herself to a particular subject in question as a sample of the representation of the whole from which credible, reliable and valid data can be obtained. This research leaves more gaps and invites researchers to dig deep into the issues surrounding the factors affecting dividend payout among listed companies in the Kenyan market. The current study involved only four factors and these accounted for 77.69% of the variations in dividend payout. The researcher recommends more research to be done taking into consideration other factors. These include factors such as the commercial banks management, legal environment and competition within the banking industry. These factors were outside the model formulated for this study and which could also affect DPO. Hence there can be further research done in the Kenyan market on the effect of these factors on DPO.

From the study findings, it was evident that listed commercial banks that are foreign subsidiaries such as Barclays and Standard Chartered banks had a higher dividend payout ratio than banks that are locally owned such as Co-op, KCB and Equity Banks. The researcher recommends research to be done to establish the reason for this and the relationship between type of bank and dividend payout. More research could also be done to establish the reasons for dividend payment by listed commercial banks in Kenya. The study also revealed that listed commercial banks such as Barclays and Standard Chartered banks had a higher dividend payout ratio than big banks in terms of firm size as measured by total assets such as Co-op, KCB and Equity Banks. A study could therefore be done to find out the relationship between firm size and dividend payout.

Limitations of the Study

Every research has its own limitations and this was not an exception. Regression analysis used in the present study took into consideration only four factors. It did not consider other factors which also affect DPO of the commercial banks in the multiple regression models. Further, there was the limitation on the time duration of the study which was limited to 5 years. If the study was carried out for more than the 5years, may be it would have produced different results. The study only considered listed commercial banks in Kenya which are eleven in number out of which only six were studied as they had consistently paid dividends for the period under review. The banking industry in Kenya has 46 commercial banks.

REFERENCES

1. Baker, H.K., (2009). Dividend Policy issues in regulated and unregulated firms: a managerial perspective", Managerial Finance, Vol. 25(6), p. 1-19.
2. Miller, M., and Franco, M., (1961).Dividend Policy, Growth and the Valuation of Shares. Journal of Business, vol. 34, 411-433.
3. Brealey, R.A. and Myers, S.C., (2002). Principles of corporate finance (7th ed.). New York, NY: McGraw-Hill.
4. Gordon, M.J. (1963). Optimal Investment and Financing Policy. The Journal of Finance, 18(2):264 – 272.
5. Azhagaiah, R. and Sabri P.N., (2008). The Impact of Dividend Policy on Shareholders Wealth. International Research Journal of Finance and Economics, issue 20, p.180-187.
6. Afzal, T. and Mirza, H., (2010). Ownership Structure and Cash Flows as Determinants of Corporate Dividend Policy in Pakistan. International Business Research, Vol. 3(3) p. 210-221.
7. Nairobi Securities Exchange. (2016, November 15). Retrieved November 15th, 2016, from www.nse.org.
8. Maina, S.W., (2002). Empirical Relationship Between Dividend and Investment Decisions of Firms Quoted in the NSE, Unpublished MBA Thesis, University of Nairobi
9. Aduda, J. (2011). The relationship between executive compensation and firm performance in the Kenyan banking sector. *Journal of Accounting and Taxation*, *3*(6), 130.
10. Muriithi, J.M., (2004). The Relationship Between Corporate Governance Mechanism and Performance of Firms Quoted at the Nairobi Stock Exchange. Journal of Accounting and Taxation Vol. 3(6), pp. 130-139.
11. Aduda, J. O., & Kimathi, H. (2011). The Applicability of the constant dividend model for companies listed at the Nairobi stock

exchange. *Journal of Financial Studies & Research*, *11*.

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

13. Amidue, M., andAbor J., (2006). Determinants of Dividend payout ratios in Ghana, The Journal of Risk Finance, Vol. 7(2), p. 136-145.

14. Adesola, W. A., & Okwong, A. E. (2009). An empirical study of dividend policy of quoted companies in Nigeria. Global Journal of Social Sciences, 8(1), 85 – 101.

15. Olweny, T. (2012). Dividend Announcement and Firm Value: A Test of Semi Strong Form of Efficiency at the Nairobi Stock Exchange. Published by Canadian Center of Science and Education. Asian Social Science Vol. 8, No. 1; January 2012.

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

17. Baker, H.K., Powel, G.E. & Viet, E.T. (2002).Revisiting the dividend puzzle. Do all of the pieces now fit? Review of Financial Economics, 11:241– 261.

18. Antonietti M. Silica nanocasting of lyotropic surfactant phases and organized organic matter: material science or an analytical tool?. Philosophical Transactions of the Royal Society of London A: Mathematical, Physical and Engineering Sciences. 2006 Oct 15;364(1847):2817-40.

19. Arnott, D. R., &Asness, S. C. (2003). Surprise higher dividends are higher earnings growth. Financial Analyst Journal, 70 – 87.

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

21. Nissim, D., &Ziv, A. (2001). Dividend Changes and Future Profitability. Journal of Finance, 56(6), 2019–65.

22. Lie, E. (2005). Financial flexibility, performance, and the corporate payout choice. The Journal of Business, 78(6), 2179 – 2202.

23. Ahmed, S., & Murtaza, H. (2015). Critical analysis of the factors affecting the dividend payout: Evidence from Pakistan. *International Journal of Economics, Finance, and Management Sciences*, *3*, 3.

24. Gill, B. and Tibrewala, M. (2010). Stock market liquidity and firm dividend policy. The Open Business Journal, Vol. 3, pp 8-14.

25. Bartram, S. M., Brown, G. W., & Fehle, F. R. (2009). International evidence on financial derivatives usage. *Financial management*, *38*(1), 185-206.

26. F. Perretti, G., T. Allen, M., & Shelton Weeks, H. (2013). Determinants of dividend policies for ADR firms. *Managerial Finance*, *39*(12), 1155-1168.

27. Keen, H. (2003). The impact of a dividend cut announcement on bank share prices. Journal of Bank Research, 13, 274-28 1.

28. Lintner, J., (1956). The Effects of Dividends on Common Stock Prices: Tax Effects or Information Effects? Journal of Finance 37, 429-443.

29. Fama, E.F., and French, K.R., (2001). Disappearing dividends: Changing firm characteristics or lower propensity to pay. Journal of Financial Economics, 60, 3-43.

30. Baker, H. K, Farrelly, and Richard B. Edelman, R.B., (2005). A Survey of Management Views on Dividend Policy. Financial Management 14 (No. 3, Autumn), 78-84.

31. Powell G.E., (2000). Determinants of Corporate Dividend Policy: A Survey of NYSE Firms. Financial Practice & Education, Vol. 10 Issue 1, p29-40.

32. Hussainey, K. (2011). Dividend policy and share price volatility: UK evidence. Journal of Risk Finance, 12(1), 57-68.

33. Baskin, J. (2009). Dividend policy and the volatility of common stock.The Journal of Portfolio Management.

34. Nazir, M. S. (2010). Determinants of stock price volatility in Karachi Stock Exchange: The mediating role of corporate dividend policy. International Research Journal of Finance and Economics (55).

35. Asghar, M., Shah, S. Z. A., Hamid, K., & Suleman, M. T. (2011). Impact of dividend policy on stock price risk: Empirical evidence from equity market of Pakistan. *Far East Journal of Psychology and Business*, *4*(1), 45-52.

36. Sim, L. W. (2011, March). A study on leading determinants of dividend policy in Malaysia listed companies for food industry under consumer product sector. Conference Master Resources.

37. Pruitt, G., Stephen W. and Gitman, J.L., (2011). The Interactions between the Investment, Financing, and Dividend Decisions of Major U.S. Firms, Financial Review 26 (No. 3, August), 409-430 Michael.

38. Lintner, J., (1956). Distribution of Incomes of Corporations among Dividends, Retained Earnings and Taxes, American Economics Review 46 (No. 2, May), 97-1 13.

39. Ouma, O. P. (2012). The relationship between dividend payout and firm performance: a study of listed companies in Kenya. *European Scientific Journal, ESJ*, *8*(9).

40. Petit, R. (2007).Taxes, Transaction costs and clientele effects of dividends. Journal of Financial Economics, 49-436

41. Ang, J.S. (2007). Do dividends matter? A review of corporate dividend theories and evidence. New York: Salomon Brothers Center for the Study of Financial Institutions and the Graduate School of Business Administration, New York University.

42. Kulmala, L., Read, J., Nöjd, P., Rathgeber, C. B., Cuny, H. E., Hollmén, J., & Mäkinen, H. (2017). Identifying the main drivers for the production and maturation of Scots pine tracheids along a temperature gradient. *Agricultural and forest meteorology*, *232*, 210-224.

43. Bradley, M., (2008). Dividend Policy and Cash-Flow Uncertainty. Real Estate Economics, Vol. 26 Issue 4, p555-579.

44. Brigham, E. & Gapenski, L. (2012). Financial Management: Theory and practice, (10th edition.). United States: Thomson Learning, Inc.

45. Bulla, L. E. J., & Barbosa, W. G. J. (2013). *Turismo: Tendencias globales y planificación estratégicas*. Ecoe Ediciones.

46. Mululu, A.K., (2005). The Relationship Between Board Activity and Firm Performance: A Study of Firms Quoted on the Nairobi Stock Exchange. Journal of Accounting and Taxation Vol. 4(7), pp. 142-144.

47. Brown, P. S., Bartram, S., How, J., & Verhoeven, P. (2009). Agency Conflicts and Corporate Payout Policies: A Global Study.