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Influence of Dividend Payout Rate on Financial Performance of Selected Listed Companies

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ABSTRACT: The purpose of this study was to investigate the effect of dividend payout on financial performance of selected companies listed on the NSE, Kenya. The study was guided by the following specific objectives: Establish the effect of dividend payout rate on financial performance, determine the effect of dividend per share on financial performance, examine the effect of dividend yield on financial performance and determine the moderating effect of company size on financial performance of selected companies listed on Nairobi Securities Exchange. The study used longitudinal research design targeting 57 companies listed on NSE as at 31st December 2020. Purposive sampling technique was used on the target population, whereby 18 least performing companies as at 31st December 2020 were selected. A total of 90 observations were included in the dataset. Secondary data was collected mainly from NSE Handbook 2020-2021 and annual reports of the companies over five years from 2016 to 2020. The analysis involved both descriptive and inferential statistics. An empirical estimation was then carried out involving testing for stationarity of the variables, cointegration and estimating the cointegrating relation. It was expected that the output of this study provided a basis for Board of Directors and managers of companies in Kenya, Investors, Government agencies and regulatory bodies to make an informed decision and develop policies for investments. The study came with findings, made conclusions and appropriate recommendations. Based on the findings, the study concluded that dividend payout rate led to an increase in ROA of selected companies listed on Nairobi's Securities Exchange. Therefore, dividend payout rate had a positive and significant effect on financial performance of selected companies listed on Nairobi's Securities Exchange. When companies enhance dividend payout, there is a likelihood of improved financial performance of selected companies listed on NSE, Kenya. The study recommended that companies listed at NSE should ensure that the dividend payout rate is aligned with the company's long-term strategic objectives. For instance, a mature, stable company may prioritize regular dividends to reward shareholders, while a growth-oriented company may reinvest profits for expansion. Furthermore, the study recommends that the government should support companies by ensuring that there are sound decision practices on dividend payout policy for the sustainability of companies. This study should be used by academicians to understand how well management allocates profits between reinvestment and shareholders returns. Dividend payout rate can be used to tell a company's financial health and examine key financial metrices. Suggestions for further studies to be carried out in the entire East Africa Region to assess the establishment of companies in Kenya, Uganda, Tanzania, Burundi, and Rwanda, and then compare the results of those listed companies in the region. Also, more studies should be carried out in the future to investigate the effect that dividend policy contain on the expansion of the economy.

KEY WORDS: Dividend payout rate, Financial performance and selected listed companies, Influence.

INTRODUCTION

The financial performance of a company serves as a critical gauge of its overall health and viability, offering insights into its ability to generate revenue and effectively manage financial resources (Astrin Kusmawardan, 2021; Didin Fatihudin, 2018). James (1973) introduced the lifecycle theory, suggesting that a company's financial performance varies according to its stage of development. Particularly in the early stages, companies may face challenges securing operational finances and building substantial asset bases to drive revenue.

Financial performance evaluation encompasses various metrics, including profitability and cash flow, which enable decision-makers to assess business strategies and outcomes in tangible monetary terms (Easwaran Pandi et al., 2021). Profitability, reflecting the company's ability to generate returns after expenses, and cash flow management, crucial for sustaining operations, stand out as pivotal indicators of financial health (Abdul Rahman and Raj Bahadur Sharma, 2020).

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Across different global markets, financial performance trends vary. For instance, in the New York Securities, pre-tax profits surged by 2.8% to $28.1 billion in 2019, driven by heightened focus on revenue generation, especially from securities trading (NYSE Annual Report, 2019). Similarly, Pakistan's top 100 firms experienced a remarkable 47% increase in net profits in 2021, attributed to factors like interest rate revisions and global energy demand (Pakistan Capital Market Authority, 2021). However, disparate sectors within these markets exhibit divergent profitability trajectories, with some witnessing significant growth while others face declines (Aroni et al., 2014).

In contrast, challenges persist in markets like Nigeria and Kenya. Notably, over half of the firms listed on the Nigerian Exchange Limited failed to pay dividends for extended periods, despite some reporting profits (NEL Report, 2023). Similarly, the Kenyan secondary market grappled with declining share values and market capitalization from 2016 to 2020, signaling broader issues in equity market performance (KNBS Economic Survey, 2021).

Various empirical studies have been conducted both globally and locally in Kenya to cover the effect of dividend payout on financial performance of companies listed on securities markets. Globally, Akram (2017) investigated on dividend payout and its impact on firm value of firms listed on Istanbul Stock Exchange. From the analysis of the findings, it was established that a positive relationship existed between dividend payout and firm but the investigation was carried in a different setting and did cover aspects of dividend payout rate, dividend per share and dividend yield, which were covered by the current study.

Khan, Lamrani, and Khalid (2019) examined the impact of dividend policy on firm performance of the Karachi stock exchange (KSE). The results indicated that dividend policy, capital structure long term and firm size influenced performance of the firm (ROE). This study was also conducted in a different setting, which may differ in terms of technological advancement and socio-economic aspects hence its findings cannot be generalized to the current study.

Kanakriyah (2020) explored the major factors that used to determine the financing structure for companies listed in Amman Stock Exchange in Jordan. The findings indicated that firm size, growth opportunities, and tax-deductible items contained a positive effect on the borrowing, but profitability affects negatively on borrowing. The findings of this study cannot be applied to Nairobi Stock Exchange in Kenya as they differ in terms of contexts, technological advancement and socio-economic dimensions.

Locally in Kenya, Aroni *et al.* (2014) did a study on the effect of dividend payout on investment in shares for Kenya retail investors and they found out that dividend payout has a significant influence on decisions to invest in shares. This shows that dividend payout shows the strength of company hence attracting more investors.

Yuko (2016) examined the effect of dividend policy on value of firms listed at NSE. The findings of the study found that the timing of payment of dividends and the mode of dividend payment positively influenced value of the firm.

Nduati & Wepukhulu (2023) analysed the effect of dividend policy on financial performance of saving and credit co-operative societies in Nairobi County, Kenya. The study results established that earning per share had an insignificant and negative effect on return on assets in SACCOs while dividend payout ratio contained a positive influence on financial performance in SACCOs. The results revealed that dividend payout ratio in Deposit Taking SACCOs have a positive trend. Despite this, it emerged that the study was conducted in Deposit Taking SACCOs but not the NSE hence its findings cannot be generalized to the current research.

Although various empirical studies have been conducted globally and locally in Kenya, majority of these studies have not embraced dividend payout rate, dividend per share and dividend yield to determine their relationship with financial performance. Some that used them were done in different countries hence the need to carry out a study in Kenya. Therefore, it was against this backdrop that this study sought to investigate the effect of dividend payout on financial performance of selected companies listed on NSE.

PROBLEM STATEMENT

The payment of dividends often serves as a key signal of a company's financial health (Oigo et al., 2019). However, instances of dividend payouts amidst financial struggles raise concerns about the true motivations behind such distributions. Notably, a significant portion of firms listed on the NSE refrained from paying dividends in 2022, including notable entities like Eaagads, Kenya Airways, and East Africa Cables (NSE, 2023). This phenomenon underscores the need to explore the relationship between dividend payout and financial performance more comprehensively.

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Moreover, the broader context of declining share values and market capitalization in the Kenyan secondary market raises questions about the efficacy of existing interventions (KNBS Economic Survey, 2021). Despite efforts to foster a conducive business environment, suboptimal financial performance persists among NSE-listed companies, with instances of sluggish growth and delisting (NSE, CMA, 2020). This backdrop underscores the importance of investigating the impact of dividend payout on financial performance within the Kenyan market.

Globally and locally, empirical studies have yielded conflicting findings regarding the relationship between dividend payout and financial performance. However, many of these studies either overlook crucial dividend payout metrics or are conducted in different contexts, necessitating a localized investigation (Akram, 2017; Khan et al., 2019; Yuko, 2016; Nduati & Wepukhulu, 2023). Therefore, this study sought to fill this gap by examining the effect of dividend payout on the financial performance of selected companies listed on the NSE.

THEORETICAL FRAMEWORK

The first theory used in the study was the bird in the hand theory is one of the early theories advanced to ascertain the basis of firms' propensity to pay high dividends. The theory proposes a correlation between the value of a firm and dividends payout –dividends are vital in determining firm value (Gordon, 1963). The basic tenet is that dividends are less risky than capital gains since they are a sure thing for shareholders. Due to of information asymmetry and uncertainty, valuation of dividends is different from retained earnings: "Dividends (a bird in the hand) are better than retained earnings (a bird in the bush) because latter might never materialize as future dividends (can fly away)". Gordon (1959) indicated that dividends payout exhibits greater effects on share price than do capital gains. Further, he argues that by paying a high dividend ratio the firm's future cash flow will be less uncertain resulting in a decrease in the cost of capital and subsequently an increase in firm value. This proposition has been buttressed by Lintner (1956), Walter (1963), and Bringham and Gordon (1968). Bhattacharya (1979) argues that a firm's risk does affect the way it distributes its dividends, but the riskiness of the firm is unaffected by the manner of distributing dividends. Extending the argument, it is suggested that an increase in the riskiness of cash flows increases the firm's risk which, in turn, has a bearing on the firm's decision to pay dividends (as risky firms tend to make lower dividend payments than less risky firms). An adjustment of the dividend payout ratio will, on the contrary, not affect the riskiness of the firm. Generally, firms with riskier cash flows have propensity to pay lower dividends than those with more stable cash flows. The rationale behind this is that riskier firms tend to keep the dividends low so as to get around any dividend cut that might arise when the projected earnings decline afterwards. Secondly, riskier firms are often apprehensive of committing themselves to a high dividend payment owing to unavoidable uncertainties regarding future developments. As such, the riskiness of cash flow may affect dividend policy (Rozeff, 1982; Crutchly & Hansen, 1989; Alli, Khan & Ramirez, 1993; Moh'd, Perry & Rimbey, 1995). Besides, a host of research argue that Gordon (1959) failed to consider risk factors in his regression analysis. The aftermath is bias in the coefficient of dividends. Diamond (1967) tried to correct this bias through evaluation of the regression to find the impact of dividend and returns earnings on share prices. The results suggest that investors hardly have any preference for dividends. He additionally ascertained that investor in industries with higher growth rates prefer capital gains over dividends, but the converse for other types of industries (lower growth rate). Miller and Modigliani (1961) however criticized the bird in hand theory and called the assumption that a high dividend would raise a firm's value a "the bird in hand fallacy", suggesting that firm riskiness is affected by the riskiness of asset cash flow and not by dividend payout policy that the firm follows. In the current study, the bird in hand theory goes into supporting the independent variable since the theory proposes that a relationship exists between firm value and dividend payout – those dividends are relevant in determining the value of the Company.

The second theory used in the study was dividend irrelevance theory where the pioneering work of Miller and Modigliani (M&M) serve as the basis for theories on dividend policies. According to M&M, dividend policy change is irrelevant to the value of the firm. Their proposition is pegged on three assumptions. The first assumption is that firms operate in a free market where there are no brokerage fees, taxes, and the activity of a single participant cannot affect the market prices of securities traded. Secondly, it assumed that all participants in the market have homogenous expectations with regard to future investments, profits, and dividends –they share the same belief concerning the future. The last assumption is that a firm's investment policy is usually set of ahead of time and cannot be changed by alterations in the dividend policy. In light of these assumptions, M&M established that the value of a firm is dependent on its investment decisions, earning power and business risks. A firm's value is not affected by the amount of

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dividend being paid to its investors as well as change in dividend policies. Assuming perfect capital markets, the dividend policy of a company with a particular investment policy will affect only the level of outside financing required to raise capital for new investment and to pay dividends. Most practitioners and financial managers have questioned and challenged the validity of MM's theory by reasoning that M&M based their theory on a perfect and frictionless capital market, which tend to be untenable in the real world. In practice there are different tax rates, floatation and contracting costs, brokerage fees, conflict of interest between managers and shareholders, which provide significant hurdles to establishing the irrelevance of dividend policy proposition, Leas et al., (1999). Selling of shares by shareholders to realize "homemade" dividend can attract transaction costs and in other jurisdictions, charges such as capital gain taxes. Additionally, the selling of shares periodically to create a revenue stream can be challenging in the long run as share prices are volatile; a decrease in the fair value of the shares will lead to shareholders selling a lot of shares juts to maintain the same revenue stream. In this study the theory supports the dependent variable by indicating that there is no relationship between dividend payout and companies' financial performance. The third theory employed in the study was the stewardship theory where according to the stewardship theory, managers of companies are not opportunistic agents but rather, good stewards of a firm who objectively labor to meet the expectations and interests of the owners by securing high profits and return on shareholders' investments. The stewardship and the agency theory differ on the basis of managers' motive. The stewardship theory is also informed by McGregor's Theory Y (the economic model of human behavior) which argues that human beings are inherently motivated to work and deliver good results. Hence, the stewardship theory poises there is no conflict between shareholders and managers. In this study, the theory supports the dependent variable by indicating that financial performance is not necessarily pegged on dividend payout rather on stewardship by the managers to meet the company objectives.

EMPIRICAL LITERATURE REVIEW

Nguyen et al (2021) researched on 450 companies listed on Vietnam stock market to determine the effects of dividend payout and financial performance. The study relied on secondary data collected from all listed companies from 2008 to 2019. ROA, ROE, Tobin Q were used to measure performance of the companies and dividend payout rate as a measure of dividend payout. Study analysis indicated that companies offering low dividend payout rate positively impacts accounting-based performance. The current study employed longitudinal research design as opposed to the case study applied in the above study. To add on the dividend payout rate as an indicator of independent variable the current study included DPS and dividend yield thus making the indicators to be three.

Imeokparia & Ezeokoli (2017) examined dividend payout and financial performance of listed commercial banks in Nigeria between 2007 and 2016. Random sampling relied on to select ten banks listed on the Nigeria Stock Exchange. Secondary data was obtained from the banks' annual reports from 2007 to 2016. To propose a theoretical explanation of the birds-in-hand dividend relevance theory, two models were developed, compared, and contrasted to the Miller and Modigliani's dividend irrelevance theory. The relationship between bank size and earnings per share was positive and insignificant. Dividend payout variables had significant relationship with the banks' performance. Moreover, the study established that Tobin Q, a measure of dependent variable, had a positive but insignificant relationship with both dividends pay out and board size. In the current study, dependent variable indicator was return on assets. Independent variables indicators included dividend payout rate, DPS and dividend yield. The current research used longitudinal research design and data analysis employed descriptive statistics besides regression used in the above study. The sample size was 18 companies as compared to the above study which used 10 companies.

M K Njilu (2023) carried out research on 48 small-sized banks in Kenya to examine the influence of dividend payout and financial performance. The study relied on primary data and ROA, ROE, were used to measure financial performance of the banks whereas net income, annual dividend paid a measure of dividend payout. Inferential results indicated that dividend payout had a significant & positive influence on financial performance of small sized banks in Kenya. The current study employed longitudinal research design as opposed to the descriptive design applied in the above study. To add on the dividend payout rate as an indicator of independent variable the current study included dividend yield and dividend per share thus making the indicators to be three.

Nduati & Wepukhulu (2023) researched on effect of dividend policy on financial performance of Savings & Credit Co-operative Societies in Nairobi County -Kenya. The main objective was to assess the relationship between dividend policy and financial performance among regulated saccos in Nairobi-Kenya. The study concluded that dividend payout ratio had a positive and insignificant effect of financial performance of Deposit taking Saccos in Kenya.

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To investigate the relationship between dividend payout on firm performance of top 40 JSE Companies in South Africa, LP Mamaro (2019) adopted net profit margin, leverage, growth and firm size as independent variables whereas dividend payout ratio (DPR) as dependent variables and using Panel data methodology, the study showed a negative relationship between dividend payout with net profit margin, leverage, growth and firm size. The current study used longitudinal research design; dependent variable indicator was ROA. Dividend payout rate, DPS and dividend yield were used as independent variables. Data analysis employed descriptive statistics besides the regression analysis used in the above study.

To establish the nexus between dividend payout and financial performance of registered microfinance companies in Tanzania JD Chindengwike (2023) adopted dividend payout as an independent variable whereas ROA served as a dependent variable and using time series research design and a sample of 13 registered Saccos, the study showed that dividend payout and lag dividend payout had a significant impact on financial performance of Dodoma registered Saccos. The period of research was 15 years. The current study used longitudinal research design. Independent variable indicators were DPS and dividend yield besides dividend payout rate used in the above study. Data analysis employed descriptive statistics besides the regression analysis used in the above study.

RESEARCH METHODOLOGY

The researcher made use of longitudinal study design to provide a concrete framework for the proposed study. Longitudinal research design was adopted since is considered suitable for panel data analysis and comparison of data for different periods in this case 5 years data from 2016-2020. Lauren Thomas (2020) describes this study design as one that researchers repeatedly examine the same individuals/subjects to detect any changes that might occur over a period of time. The population for the study consisted of 57 companies listed on NSE as at 31st December 2020, all listed companies at the NSE were 57. Consequently, the sample of this study entailed purposive sample of the target population. Whereby 18 least performing companies were purposively selected. This study therefore targeted 18 NSE least performing companies as at December 2020. Least performing companies are companies whose stocks had a higher negative price change as at 31st December 2020. The inclusion criteria were companies which pay dividends, despite not performing well at NSE, those who don't pay dividends were excluded. Secondary data was collected from financial statements of NSE 18 least performing companies as at 31st December 2020. Further information was requested from NSE and CMA websites.

The financial statements covered a 5-year period from 2016 to 2020. Annual financial reports of NSE least performing companies as at 31st December 2020 were collected for each of the company in the sample. After that, the data was arranged into a multi-column excel file and then determined the value of the variables for each company in research sample. The data was analyzed by both descriptive and inferential statistics.

Overall multiple regression equation used was:

$Y=\beta o +\beta 1X1+\varepsilon$ …….

Where; Y= Financial performance measured using ROA

βo= Intercept βI is the regression coefficient

X1=Dividend payout rate (dividend per share divided by earnings per share of the company)

ε= Error term

FINDINGS AND DISCUSSION

1) Descriptive statistics of Dividend Payout rate and Financial Performance of selected Companies Listed on NSE.

The study's first objective was to establish the effect of dividend payout rate on financial performance of selected companies listed on Nairobi Securities Exchange. The descriptive analysis was conducted on dividend payout rate and financial performance of selected companies listed on Nairobi Securities Exchange; the results were presented in table I

Table I: Descriptive statistics of Dividend payout rate

	N	Min	Max	Mean	Std. Deviation
Dividend pay-out rate	90	.030	.420	.149	.067

(Field Research data 2023)

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Table I showed the minimum and maximum rates for dividend payout rate were 0.030 and 0.420 respectively. This can be interpreted to mean that the range of dividend payout rate in respect of selected companies listed on NSE was between 0.30 t0 0.420. The mean of ($\bar{x}$ =0.149) and standard deviation of (σ=0.067) was observed, from this study it can be deduced that with a relatively small standard deviation compared to the mean, it suggests that the data points were relatively close to the mean indicating less variability in the data set.

The implication is that investors can invest with confidence knowing the maximum and minimum returns they can realise upon maturity of their investments. The standard deviation implies that companies have been fairly consistent in dividend payout rate for the 5 years. The results are similar to those researches done by (Imeokparia & Ezeokoli,2017); and (M K Njilu, 2023); the results contradict with studies done by (Nguyen et al,2021); and (Ebire Mukhtar & Onmonya, 2018); where the mean and standard deviations were higher.

2) Correlation Analysis of Dividend Payout rate and Financial Performance of selected Companies listed on NSE

The study conducted correlation analysis in order to obtain the linear relationship of dividend payout rate and financial performance of selected companies listed on Nairobi Securities Exchange. The results are enlisted in Table II

Table II: Correlation Analysis of Dividend payout rate ROA.

Variable		Dividend Pay-out Rate	ROA of Selected Companies Listed at NSE
Dividend Pay-out Rate	Pearsons Correlation	1	0.797**
	Sig.(2-tailed)		.000
	n	90	90
ROA of Selected Companies Listed at NSE	Pearsons Correlation	0.797**	1
	Sig.(2-tailed)	.000	
	n	90	90

** Correlation, at 0.05 level of significance for a two-tailed test

Source: (Field Research data 2023)

Results from table X indicates a strong positive significant relationship between the dividend payout rate and ROA of selected companies listed on NSE (r=0.797; P<0.000). The implication here is that an increase in Dividend Pay-out Rate will lead to increase of ROA by 79.7% of selected companies listed on NSE. This also shows that where companies enhance dividend payout rate then there is likelihood of enhancement of financial performance (ROA). These findings corroborate the findings by (LP. Mamaro, 2019); (Ebire, Mukhtar & Onmonya, 2018); and (Nguyen et al, 2021) whose findings indicated that the relationship between Dividend payout rate and performance was positive and statistically significant.

3) Regression Analysis of Dividend Payout rate and Financial Performance of selected Companies listed on NSE

A regression analysis was conducted on dividend payout and ROA; the results are showed in table III

Table III: Regression results of Dividend payout rate and ROA

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.797[a]	.636	.638	.046

a. Predictors: (Constant), X1

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ANOVA

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	146.517	3	109.887	16.979	.000[b]
Residual	488.841	86	6.465		
Total	635.358	89			

a. Dependent Variable: Financial performance
b. Predictors: (Constant), X1

Coefficients

	Un-standardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	3.499	.499		6.970	.013
XI	2.872	.100	.507	28.571	.000

a. Dependent Variable: Financial performance

The results in table III indicate that the dividend payout rate had a significant effect on ROA of selected listed companies at NSE as shown by R-value 0. 797.The R squared of 0.636 shows that the dividend payout rate variable accounted for 63.6% of the variance on ROA of selected listed companies at NSE.
The ANOVA results show that the F statistics value was 16.979, with a p-value of 0.00<0.05. This indicated that the model was significant and fit for the study.
The regression model was
$Y= \beta_0+ \beta_1X_1+ \varepsilon…..$
$Y= 3.499+ 2.872X_I+ 0.10$
Table 4.14 showed that by holding dividend payout rate at zero, ROA of selected companies listed on Nairobi Securities Exchange would be 3.499. In addition, unit increase in dividend payout rate will cause ROA of selected listed companies at NSE to increase by 2.872(p=000).
In conclusion, dividend payout rate had a positive influence on ROA of selected companies listed at NSE. This result is consistent with previous studies, such as those by J.D Chindengwike (2023), Nduati and Wepukhulu (2023), Ebire. This results on the other hand contradicts the results of previous studies by LP Mamaro (2019) in this case the results indicated significant but negative effect of independent variable to financial performance.

CONCLUSION

Based on the findings, the study concluded that dividend payout rate led to an increase in ROA of selected companies listed on Nairobi's Securities Exchange. Therefore, dividend payout rate had a positive and significant effect on financial performance of selected companies listed on Nairobi's Securities Exchange. When companies enhance dividend payout, there is a likelihood of improved financial performance of selected companies listed on NSE, Kenya.

RECOMMENDATION

The study recommends that companies listed at NSE should ensure that the dividend payout rate is aligned with the company's long-term strategic objectives. For instance, a mature, stable company may prioritize regular dividends to reward shareholders, while a growth-oriented company may reinvest profits for expansion. Furthermore, the study recommends that the government should support companies by ensuring that there are sound decision practices on dividend payout policy for the sustainability of companies.

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CONTRIBUTION TO KNOWLEDGE

This study should be used by academicians to understand how well management allocates profits between reinvestment and shareholders returns. Dividend payout can be used to tell a company's financial health and examine key financial metrices.

AUTHOR CONTRIBUTIONS

Under the supervision of both Dr. Fred Atandi and Dr. Brian Singoro, university lecturers in the school of Business at Kibabii University, Kenya, Philip Ojiambo Oundo, wrote the concept paper, edited and proceeded to write the whole paper. Under their guidance, he collected and analyzed data as reflected in the work. Therefore, any grammatical issues are solely his.

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CONFLICT OF INTEREST DECLARATION

Philip Ojiambo Oundo declares that there are no conflicts of interest regarding the publication of this Manuscript. In addition, the ethical issues; including plagiarism, informed consent, misconduct, data fabrication and (or) falsification, double publication and (or) submission, redundancy has been completely observed by the authors.

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