

**THE EFFECT OF LIQUIDITY ON DIVIDEND PAYOUT BY COMPANIES
LISTED AT THE NAIROBI SECURITIES EXCHANGE**

BY

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the Degree of Master of Business Administration of the University of Nairobi**

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DECLARATION

I declare this Research Project is my original work and has not been presented for any academic award in any University or institution of learning.

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This Research Project has been submitted for examination with my approval as the University Supervisor.

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DEDICATION

I dedicate this research paper to my Parents Late Kimutai Chemoiywo and Leah who introduced me to education and inculcated in me the spirit of hard work.

To my wife Joyce, for her tireless support during the research. To my Daughters Beatrice and Ivy and sons Ian and Alvin for being source of my inspiration and this should be a stepping stone for you to emulate and surpass.

ABSTRACT

Liquidity management is a critical component in every organization. It refers to a firm being able to meet its current obligations on business as and when they arise. It entails the elimination of default chances on obligations as they fall due and balancing between short term assets and liabilities. The aim of the study was to determine the effect of liquidity on dividend payout by companies listed at the NSE.

The study considered thirty four companies out of fifty six listed firms at the NSE in the period 2007 to 2011. Secondary data was collected from the financial statements of individual companies and analyzed using multivariate regression analysis. Dividend payout was considered as dependent variable while liquidity, leverage, profitability, cash flow, corporate tax, sales growth, industry and earnings per share as independent variables.

The findings revealed that there is a positive effect of liquidity on dividend pay out. The findings also revealed that all other independent variables except cash flow had a positive association with dividend payout. This study harmonizes with other studies done in developing countries that portray a positive association between liquidity and dividend pay out.

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ABBREVIATIONS

CMA	-	Capital Market Authority
EPS	-	Earning Per Share
MM	-	Modigliani and Miller
NSE	-	Nairobi Securities Exchange
SACCO	-	Savings and Credit Cooperative
SPSS	-	Statistical Package for Social Science
TSE	-	Tehran Stock Exchange
UAE	-	United Arab Emirates

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Liquidity management is crucial for every organization, it means being able to pay current obligations on business. Eljelly (2004) posited that, liquidity management entails elimination of default chances on obligations as they fall due and balancing between short term assets and liabilities. Liquidity ratios are used for liquidity management in every organization in the form of current ratio, quick ratio and acid test ratio that greatly affect on performance of an organization. Liquidity ratios measure a business' ability to meet the payment obligations by comparing the cash and near-cash with the payment obligations. If the coverage of the latter by the former is insufficient, it indicates that the business might face difficulties in meeting its immediate financial obligations. This can, in turn, affect the company's business operations and effectiveness.

Pandey (2005) documented that there is risk-return trade off in management of liquidity. Holding large current assets strengthens the firms' liquidity position hence reducing riskiness, but it also reduces the overall profitability. Weiner (2006) recognized that liquidity enables firms to endure bad economic times by holding an assortment of liquid investments. Working capital management thus enables managers to have guaranteed liquidity levels as well as investment avenues where idle funds may be temporarily invested. Soenen (1993) noted that liquidity for the on-going firm is not reliant on the liquidation value of its assets, but rather on the operating cash flows generated by those assets and therefore working capital management should be given proper considerations so that maturing current obligations are honored on timely basis.

Dividend is a share of a company's net profits distributed by the company to a class of its stockholders. The dividend is paid in a fixed amount for each share of stock held. Although most companies make quarterly payments in cash (cheques), dividends also may be in the form of property, scrip, or stock. Scott (2003) observed that, unlike interest on a debt, dividends must be voted on by the company's directors before each payment. Dividend policy determines the amount of earnings to be distributed to the shareholders and the amount to be retained in the firm. Dividend policy is important in that retained earnings are the most significant and cheap internal source of financing, while on the other hand dividend payout is a desirable return on investment to the shareholders.

Dividend policy of a firm is determined by several factors such as the firm's financial needs. A firm which is growing may require more funds to expand its operations and therefore may be lured to retain its earnings which are cheaper than external equity because retained earnings do not attract flotation costs. This will reduce dividend pay out. Shareholders need for income is another factor which determines dividend pay out policy. Lintner (1962) noted market imperfections and uncertainties may make shareholders to prefer the near dividends than to the future dividends and capital gains and therefore a balance must be struck between those who are for dividends and those for capital gains which do not attract tax. Liquidity position of a firm does determine the dividend pay out. Watson and Head (2007) also posited that, dividend pay means cash outflow and thought a firm may have adequate earnings to declare dividends, it may not have sufficient cash to pay dividends and therefore the greater the cash position and overall liquidity of a company the greater the ability to pay dividends. Lenders may put restrictions on dividend payment to protect their interest when a firm is experiencing low liquidity or profitability. This will automatically inform on the dividend policy of a firm. Other factors which determine dividend policy of a firm include

shareholders need to have firm grip on the organization, tax avoidance by shareholders, earning stability of the firm and legal obligations such the Kenya's company's Act (cap 486).

A dividend policy thus aims at maximizing shareholders wealth by adopting the optimal balance between distribution and retention of earnings. Miller and Rocks (1985) therefore argued that dividends are not just an outcome of a firm pay out policy; it reflects a complicated combination of investment strategy, financial decision and private information. Bhattacharya, (1979) noted that from managerial perspective, dividend can serve as a tool to signal to the market that only good quality firms afford to pay dividends. Shefrin and Statman, (1984) on the other observed that, from the investors' perspective, dividends are beneficial since they represent a regular income stream which will enhance self-control by avoiding any irrational trades.

1.1.1 Effects of Liquidity on Dividend Pay Out

Dividends and liquidity are intertwined and the firms paying out dividends must take into consideration the liquidity position of the firm. Cash dividends distribution not only depends on the profitability of a firm but also depends on the free cash flow, which is the amount of operating cash flow left over after payment for capital expenditures. According to Liu and Hu (2005), if the cash dividend is less than the free cash flow, it means the firm has residual cash, if the cash dividend is more than the free cash flow then it means the firm needs financing to meet the requirement of cash dividends. Amidu and Abor (2006) noted that there was positive relationship between cash flow and dividend payout ratios. Anil and Kapoor (2008) also indicated that cash flow is an important determinant of dividend payout ratio. Alli et al (1993) argued that dividend payments depend more on cash flows, which reflect the company's ability to pay dividends, than on current earnings, which are less heavily

influenced by accounting practices. They asserted that current earnings do not really reflect the firm's ability to pay dividends.

Ross, Westerfield and Jordan (2011) observed that, young and unprofitable firms tend to pay low dividends because of low liquidity, since much of its earnings is taken for investment purposes, but as the firms matures, it begins to generate cash flows beyond that is needed to fund profitable investments and this surplus must be distributed as dividends to shareholders since it may cause agency problems. Watson and Head (2007), explains that a company before paying dividends must consider its liquidity and dispels the notion that a company with high profits can afford high dividends. They noted that profits are not the same as cash and therefore the amount of dividends paid must reflect not just the company profits but its ability to pay dividends. Okpara (2010) observed also that liquidity exerts positive impact on dividend payout ratio.

Miller and Modigliani (1961) asserted that investors should be unconcerned as to whether or not they receive dividends now or capital appreciation in the future (Dividend Irrelevance Theory). Although this theory is one of the most central theories of finance, this theory assumed that markets are frictionless and that there would be no direct or indirect costs of trading. Banerjee et al, (2007) argued that though, trading friction is pervasive in financial markets, it may lead one to believe that the more liquid a stock is the better and that investors do indeed have a dividend preference based on the liquidity of the stock. Stocks that pay dividends satisfy investors' need for liquidity. This is even more important for stocks that are thinly traded, for which investors may either have to wait a long time for a buyer and/or take a potentially lower price. Graham and Koski, (2006) noted that information asymmetry affect liquidity depending on whether information flows freely among all the market players and

therefore the market reactions differ depending on whether an event's timing is known in advance. Based on the researches so far carried out, does liquidity determine the level of dividends paid out by firms quoted at the Nairobi Securities Exchange in Kenya?

1.1.2 The Nairobi Securities Exchange

Nairobi Securities Exchange (NSE) is a market started in 1953 and is licensed by Capital Market Authority (CMA) with its main obligation to regulate the security market and ensure trading of securities by bringing together borrowers and investors at low cost. Regulation of quoted firms is achieved by ensuring that firms stand by the rules and regulations set by providing their periodic performance reports. NSE also does provide information to general public on investment matters. The instruments which are traded consist of shares and bonds. The shares of fifty six companies listed at the NSE trade in the four sectors namely agriculture, commercial and services, finance and investment and finally industrial and allied, while bonds traded consist of government and corporate bonds.

Trading activities are conducted through the stockbrokers who meet on the floor of NSE and facilitate the exchange of shares and bonds through the auctioning process. The NSE has made tremendous improvements from its inception to date. These include the first privatization done through NSE 1988, when the government off-loaded 20% of its shares in Kenya Commercial Bank, In 1996, the largest share issue in the history of NSE, the privatization of Kenya Airways, was successful and in 2006, the NSE trading was fully automated. From these progresses, the NSE becomes a point of attention for studies.

1.2 Statement of the Problem

Observers, researchers and academicians have pointed out that there exist positive relationship between liquidity and dividend payout. Ahmed and Javid (2009) in their research noted that profitable firms with more stable net earnings can afford larger free cash flow and therefore pay larger dividends. They noted that market liquidity also has positive impact on dividend pay out policy. Mahapatra and Sahu (1993) in their analysis on the determinants of dividend policy found out that cash flow is a major determinant of dividend and therefore the higher the liquidity of a firm the more dividend is paid and vice versa. Moradi, Valipour and Mousavi (2009) also in their study of determinants of dividend policy by firms listed in Tehran stock exchange (TSE) found out that, there exist a positive and significant relationship between dividend pay out ratio and liquidity of a firm.

In contrast there those whose studies have showed that there exists negative relationship. John and Muthusamy (2010) in their study noted that there exist a negative relationship between liquidity and dividend payout. Their study showed that cash paid out to investors in the form of dividends reduces cash on hand to the firm, hence reducing liquidity of the firm. Mehta (2012) observed that liquidity played an insignificant role in determination of dividend pay out. Gill, Biger and Tibrewala (2010) also found out that liquidity had insignificant influence on dividend pay out ratio.

From these findings it clearly emerges that some studies show that there is a positive effect of liquidity on dividends pay out ratio, while others show that there is a negative effect. These studies so far done relates to foreign firms operating outside Kenya. In the Kenya's context where there is existence of information asymmetry thus inefficient market, there is no clear study which has been done to establish whether there is a positive or negative effect of

liquidity on dividend pay out by firms quoted at NSE and therefore this study aims at bridging this gap. This study will benefit firms to know the best liquidity levels to be maintained at any given point, project their plans, balance their liquidity and dividends levels and ensure there is no mismatch between them. The study intends to answer the research question; does liquidity have any effect on dividends payout by firms in Kenya? It will also bridge the knowledge gap on correlation between liquidity and dividend pay out in Kenya and add to the financial literature on previous studies done on the concepts of liquidity and dividend pay out.

1.3 Objective of the Study

To determine the effect of liquidity on dividend payout by companies listed at the NSE.

1.4 Importance of the Study

To the investors, the study findings will be a cornerstone for them to establish optimum portfolios to be held at any given time, given the liquidity levels and the expected dividends. It will empower them to know the kind of information to be disclosed by firms on the financial statement pertaining to liquidity and dividend pay out ratio for rational decisions on companies to invest in.

For academicians, the findings of this study will make contributions to the existing hypothesis on investor's behavior towards liquidity of a firm and it will be used to establish research gaps and provide reference for further research under the field of dividend policy and liquidity.

For organizations, the study will enable managers to institute policies that can create optimal liquidity levels and implement healthier dividend policies. Lastly, researchers will benefit by having in –depth understanding of the effect and correlation between liquidity and correlation between liquidity and dividend pay out policies of a firm.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter covers the various studies carried out on liquidity and dividend pay out policies. It will highlight the importance of liquidity and working capital management, dividend decision theories, determinants of dividend policy of a firm, relationship between liquidity and dividend pay out and a summary of the previous findings from various studies.

2.2 Dividend Policy Theories

Many theories and models have been put forth to examine the numerous facets of Dividend study. Researchers have developed and empirically tested various models to explain dividend behavior. There are those that consider dividend decision to be irrelevant and those that consider dividend decision to be an active variable that influence the value of a firm. These theories are:-

2.2.1 Dividend Irrelevance Theory (Modigliani and Miller)

Modigliani and Miller (1961) in their seminal contribution to research on Dividend policy argued that the value of the firm was independent of its dividend policy. MM argued that the value of a firm depends only on the income produced by firm assets and not on how this income is split between dividends and retained earnings. MM further noted that any shareholder can in theory construct its own dividend policy, e.g. if a firm does not pay dividends, a shareholder who wants 10% dividends can create it by selling 10% of his stock. They argued that if investors could buy and sell shares and thus create their own dividends without incurring cost, then the firm's dividend policy would truly be irrelevant. MM further supported their argument by saying that, if a firm does not have sufficient cash to pay

dividends and therefore issues new shares to finance the payment of dividends then, the shareholders get the new shares in the form of dividends but suffer an equal amount of capital loss since the value of their claim on assets reduces. Thus the wealthy of the shareholders does not change. The new shareholders part with their cash in exchange for new shares and the existing shareholders transfer part of their claim to the new shareholders in exchange for cash. Thus there is no net gain or loss and the value of the firm will remain unaltered after the transaction. MM based their argument on the assumption that, there is no corporate taxes, no transaction cost associated with flotation of new shares, capital markets are efficient, and there is no uncertainty, all investors make decisions using the same discount rate.

2.2.2 Bird in the Hand Theory

Lintner (1962) and Gordon (1962) argued that capital will decrease as the dividend pay-out is increased because investors are less certain of receiving the capital gains that are supposed to be realized from retention of earnings than receiving the dividends. They argued in effect that investors value a shilling of expected dividends more highly than a shilling of expected capital gains because the dividend yield component is less risky than the growth component in the total expected return equation. The theory implies that investors are risk averse and attaches less risk to current dividend than to future dividend or capital gain. Current dividend payment (bird in hand) reduces investor's uncertainty and hence results in higher values of the firms' stocks. Given that investors prefer less uncertainty, they would prefer dividends to capital gains. Therefore a company paying high dividends will attract more investors, increase the demand for its shares and thus the increase in value of the firm. Thus the higher the dividend, the higher the value of the firm and vice versa.

2.2.3 Tax Preference Theory

Litzenberger and Ramaswamy (1979) observed that the tax rate on dividend is higher than the rate on capital gain. A firm that pays dividend will therefore have a lower value since shareholders will pay taxes on this dividend. Under this theory, investors prefer companies that retain earnings and thus provide returns in the form of lower-taxed capital gains rather than higher-taxed dividends. When the effective rate of tax on dividend income is higher than the tax on capital gains, some shareholders, because of their personal tax positions, may prefer a high retention/low payout policy. Therefore a firm that pays no dividend has the highest value.

2.2.4 Dividend Signaling Theory

This theory suggests that a company announcements of an increase in dividend payouts act as an indicator of the firm possessing strong future prospects. Ross (1977) in an empirical study on the impact of dividends on share prices, observed that the increases in dividends is often accompanied by increases in share prices while a dividend cut or reduction generally leads to stock price decline. According to Ross this suggested that investors preferred dividends to capital gains.

When investors have incomplete information about the firm they will look for other information that may provide a clue as to the firm's future prospects. Managers have more information than investors about the firm, and such information may inform their dividend decisions. When managers lack confidence in the firm's ability to generate cash flows in the future they may keep dividends constant, or possibly even reduce the amount of dividends paid out. Conversely, managers that have access to information that indicates very good future prospects for the firm are more likely to increase dividends. Investors can use this

knowledge about managers' behavior to inform their decision to buy or sell the firm's stock, bidding the price up in the case of a positive dividend surprise, or selling it down when dividends do not meet expectations. According to MM, investor's reactions to changes in dividend policy do not necessarily mean that investors prefer dividend to retained earnings. Rather, they argued the price changes following dividend actions simply indicate that there is important information or signaling content in dividend announcements.

2.2.5 Clientele Effect Theory

The clientele effect is the tendency of a firm to attract investors who like its dividend policy. Evidence from several empirical studies do suggest that dividends have a clientele effect whereby investors would shift their investments among firms depending on the dividend policies set by the various firms. It is common knowledge that different groups of shareholders prefer different payout policies like retired individuals for example prefer current income and would invest in those firms that pay a high dividend. On the contrary, investors in their peak earning years prefer re-investment and have no need for current investment income and they would simply invest any dividend received after paying the relevant taxes. Pettit (1977) stated that the net tendency of an individual investor to hold portfolios of securities that have particular dividend paying characteristics will be designated the "dividend clientele effect". Thus investors who want current investment income will pursue shares in high dividend pay out firms while investors with no need for current investment income will opt for shares in low dividend pay out firms.

2.2.6 Agency Cost and Free Cash Flow Theory

It holds that payment of dividend reduces free cash flow available for management to pursue their personal opportunistic consumption and suboptimal investments Rozeff (1982). Payment

of dividend forces management to go to the capital market in order to raise needed capital for investment hence ensuring that only viable projects are undertaken. The company should pay the shareholders profits that rightly belongs to them and let them make their own investment decisions. When a company is controlled by a majority of insiders; there is less need to pay dividends to reduce agency costs. At the contrary, agency cost will become higher when the shareholding structure of a company is dispersed and hence higher dividend payout.

2.3 Determinants of Dividend Policy

Dividend policy is a company's approach to distributing profits back to its owners or shareholders. Dividend policy attempts to determine the amount of earnings to be distributed to shareholders and the amount to be retained in the firm. Retained earnings are important internal source of cheap funds to finance the growth of the firm whilst dividends, from shareholders point of view are a source of income or return on investment. Thus, for a firm to develop a long- term dividend policy, it has to strike a balance between the desires of shareholders and the needs of the firm Kuria (2001). Various factors that influence the dividend policy of a firm have been documented and these include:-.

2.3.1 Firm's Cash flow and Investment Opportunities

The cash flow of a firm is an important factor in dividend pay out decisions. A poor in flow of cash means a firm will be constrained to pay generous dividends. Alli et al (1993) noted that there was constructive correlation between cash flow and dividend pay out. Firms also tailor their dividend policies to their long term investment opportunities. For growing firms a substantial amount of funds is required and hence it gives precedence to the retention of earnings over payment of dividends, while for matured firms, investments opportunities occur infrequently and as such may distribute much of their earnings, Pandey (2005). Based

on this a firm will have to assess its investments opportunities and accompanying financial needs as it endeavors to meet its strategic plans vis-à-vis the dividend pay out.

2.3.2 Firm's Profitability and Shareholders' Expectations

Profitability of a firm is a crucial indicator of a firms' capacity to pay dividends. Firm's dividend payment pattern is influenced by current year's earnings and previous year's dividends and therefore higher profits declared signals higher dividend payout; Ahmed et al (2009). Amidu and Abor (2006) established that there exists a positive influence of corporate profitability on dividend payout by firms. The shareholders preferences for dividends or capital gains do also influence the dividend policy. The economic status of shareholders and the effect of tax differential on dividends and capital gains provide the direction on the policy to be adopted. The policy adopted has to balance between expectations of those shareholders for dividends and capital gains respectively.

2.3.3 Liquidity

Payment of cash dividends means cash outflow. Profits held has retained earnings are generally invested in assets required for the conduct of business. Retained earnings from previous years are already invested in assets and not held in cash form. Kent (1960) thus observed that a firm may have a record of adequate earnings to declare dividends but may not be able to pay dividends because of its liquidity position. In overall liquidity of a firm strengthens its ability to pay dividends. Watson and Head (2007), in their study concluded that a company before paying dividends must consider its liquidity notwithstanding high profits. They argued that profits are not the same as cash and therefore the amount of dividends paid must reflect not just the company profits but its ability to pay dividends.

2.3.4 Financial Leverage and Borrowing Capacity

A high degree of financial leverage makes a company quite vulnerable to changes in earnings and quite difficult to raise funds externally for financing its growth. A highly levered firm is, therefore expected to retain more of its earnings to strengthen its equity base. A firm with relatively stable earnings is able to predict its future income prospects and therefore likely to pay higher dividends as opposed to a firm with fluctuating incomes. Gardener (1982) explained that a firm with fluctuating earnings may adopt a policy of low regular dividends.

2.3.5 Preferred Stock Restrictions

Typically, common dividends cannot be paid if the firm has omitted its preferred dividend. Preferred stock contracts require that cash dividends will only be paid to ordinary shareholders when all preferred arrears have been satisfied. Mathur (1979) mentioned that long term contracts restrict firms' ability to pay cash dividends.

2.3.6 Legal Restrictions

The legal rules provide that dividends must be paid from earnings either from current year's earnings or past years earnings as reflected in the Balance Sheet account. Company's act (Cap 486) recognizes the shareholders rights to receive dividends and that dividends shall be paid otherwise other than out of profits. The legal rules act as boundaries within which a firm can operate in terms of paying dividends. Based on this a firm will have to consider many financial variables and constraints in deciding the amount of earnings to be distributed as dividends.

2.3.7 Restrictions in Loan Agreements

Lenders may generally put restrictions on dividend payments to protect their interests against firms' low liquidity or profitability. Weston and Brigham (1986) posited that debt contract often stipulate that no dividends can be paid unless current ratio, times- interest –earned ratio and other safety ratios exceed certain stated minimums. Pandey (2005) observed that with such restrictions the firm is forced to retain earnings and have a low dividend payout.

2.3.8 Control

The motive of maintaining control over a firm by a body of shareholders can influence the firms' dividend policy. Raising additional equity through issue of new shares to public to finance firm's investment programme dilutes the existing shareholders control and therefore to forestall this, the shareholders devices a strategy were payment of dividends may be withheld and earnings retained to finance the firm's investment opportunities. Mathur (1979) observed that reliance on internal financing in order to maintain control reduces the dividends payout.

2.3.9 Approach of the Board of Directors

Karanja (1987) observed that the approach of The Board of Directors do influence the dividend policy. The Board of Directors has the power to determine whether and at what rate dividend shall he paid to the shareholders. The payment of dividend is not obligatory and even a majority of shareholders have no right to interfere with the authority of the Board once they have taken a decision on the dividend rate. Rubner (1966) noted that there was no universal criterion of determining dividend rate and therefore it is the subjective inclination of the directors which decisively determine the pay out rate. The directors thus may base their dividend decision on other irrational factors than those generally considered as prudent.

2.3.10 Inflation

With general increase in prices level in an economy the purchasing power of currency is reduced and therefore funds generated from depreciation may not be adequate to replace worn out equipment. Under these circumstances, the firm may be forced as a mitigation strategy to depend upon retained earnings as a source of funds to make up for the shortfall. Consequently, the dividend payout ratio will be low.

2.4 Empirical Review on Effects of Liquidity on Dividend Pay Out

Firm's liquidity refers to the ability to sell its assets instantaneously without incurring unforeseen losses in the market value since its price can be determined with certainty. A weak liquidity position of a firm poses a threat to solvency of the firm and makes it unsafe and unsound, while on the other hand excessive liquidity strengthens firms' ability to meet its urgent obligations, but also reduces the firms overall profitability. Thus Proper working capital management allows a firm to determine an optimum risk-return trade off that maximizes shareholders' wealthy. Bhunia (2010) argued that a study of liquidity is of major importance to both the internal and the external analysts because of its close relationship with day-to-day operations of a firm. Basically, liquidity and working capital management are among the pillars of success for a firm.

Every stakeholder has interest in the liquidity position of a firm. Suppliers of goods will check the liquidity of the firm before selling goods on credit. Employees are also concerned about the firm's liquidity to know whether the firm can meet its employee related obligations—salary, pension, provident fund, etc. Maina (2002) concluded that a firm needs to maintain adequate liquidity because liquidity greatly affects profits of which some portion of it will be divided to shareholders. From the enormous literature on dividends, evidence

indicates that there exist impacts of liquidity on dividend payout that work in different reversing directions.

Njuguna (2006) in a study of firms which had maintained a positive average EPS as quoted at NSE for over eight years observed that liquidity played a critical role among others in determining dividend pay out policy. Karanja (1987) examined dividend decision in relation to firm's liquidity and cash flow position, the data collected showed that liquidity was one of the major factors influencing dividend pay out by firms listed at NSE. Njiru (2003) in a study of factors influencing dividend policy among the SACCO's in Kenya observed that liquidity was a moderate consideration in determining the dividend pay out. He noted that other factors other than liquidity such as past dividend played a critical role in determination of dividend pay out rate.

Norhayati et al (2010) in their empirical analysis of the determinants of dividend payment by the top 200 companies in terms of market capitalization, listed on the Malaysian share market, showed that firms paid out on average, about 40 percent of their earnings as dividends and observed that, there was a strong relationship between liquidity and dividend payment. Ahmed and Javid (2009) in their examination of the dynamics and determinants of dividend payout policy of 320 non-financial firms listed in Karachi Stock Exchange during the period 2001 to 2006 also concluded that market liquidity of the firms have positive impact on dividend payout policy as well as profitable firms with more stable net earnings do afford larger free cash flows and therefore pay larger dividends. Additionally, Okpara (2010) observed that earnings, current ratio (liquidity) and previous years dividends exerts a positive influence on the dividend pay-out ratio in Nigeria's firms. Igan, Paula and Pinheiro (2010) in their research paper on analysis of the interaction between firms dividend payout policies and

its liquidity, concluded that liquidity is positively related to the propensity to pay dividends and dividend paying firms have more liquid markets and that relationship between liquidity and dividends is much stronger for firms with stronger shareholders power.

Whereas there is a strong support from researches so far done that there is a positive relationship between liquidity and dividend pay out, other researchers have shown the reverse. John and Muthusamy (2010) examined corporate dividend policy of Indian Paper industry. The results showed that there was negative relationship between liquidity and dividend payout, because the more cash paid out to investors in the form of dividends, reduces the cash on hand. Mehta (2012) examined the determinants of dividend payout policy for United Arab Emirates (UAE) firms. The paper investigated the determinants of dividend payout for all firms in the areas of real estate, energy sector, construction sector, telecommunications sector, health care and industrial sectors listed on the Abu Dhabi Stock exchange for a period of 5 years from 2005-2009. The study empirically examined the data for a sample of 149 five-year dividend paying firms. The study analyzed a range of determinants of dividend policy: Profitability, Growth, Liquidity, Size and Leverage of UAE firms. The outcome showed that liquidity and leverage were insignificant in influencing the dividend payout decisions.

Gill, et al (2010) extended Amidu and Abor and Anil and Kapoor findings regarding the determinants of dividend payout ratios by examining the same for the American service and manufacturing firms. They were in agreement that for firms in the Services industry the dividend payout was a function of profit margin, sales growth, and debt-to-equity while for manufacturing firms dividend payment was a function of profit margin, tax, and market-to-book, but contrary to Alli et al (1993), Amidu and Abor (2006), and Anil and Kapoor (2008)

they noted that there was insignificant relationship between liquidity and dividend payout. Additionally, Samuel and Gbegi (2010) in their appraisal of dividend policy of firm investment and liquidity constraints in Nigeria noted that investment has a significant effect on the dividend policy of firms in Nigeria, but, liquidity had insignificant effect on dividend policy of firms in Nigeria.

2.5 Summary

In summary, the various studies that have been done on this area show that there exist effects of liquidity on dividend payout that work in different reversing directions. Norhayati et al (2010) and Okpara (2010) agrees that liquidity among other factors play an important role in dividend policy decisions while Mehta (2012) and Gill et al (2010) concluded in their studies that liquidity play an insignificant role in dividend pay out decisions by dividend paying companies. With this dilemma there is no clear study which has been done in Kenya's context to establish whether there exist a positive or a negative effect of liquidity on dividends pay out by companies listed at the NSE. This study aims at un-wrapping this research gap.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the method that was used in collecting and analyzing the data which enabled the study to achieve its research objectives. The main purpose of the study was to find out the impact of liquidity on dividend payout. The chapter was set to address the research design, population of the study, sample design, data collection, presentation and techniques used for data analysis.

3.2 Research Design

The descriptive research design was used. Descriptive research, also known as statistical research describes data and characteristics about the population or phenomenon being studied. Descriptive research is more advantageous because it is more formalized and typically structured with clearly stated investigative questions or hypothesis.

3.3 Population of the Study

Mugenda and Mugenda (2003) describes target population as the complete set of individual's cases or objects with some common characteristics to which the research wants to generate the results of the study. The population of the study will cover all the listed companies at the NSE. According to NSE (2012) there are a total of fifty seven listed companies (Appendix I).

3.4 Sample Design

A purposive sampling method was used to pick a sample of thirty four companies (Appendix II) that have consistently paid dividends and quoted at NSE for the five years (2007-2011) from the population. Firms under finance and investment sector were not considered because

they do not have a uniform debt and assets structure like other firms quoted in other sectors. Uchumi Super Markets Ltd and Hutchings Biemer Ltd were majorly in suspension during the period under study and therefore were not included in the study.

3.5 Data Collection

Secondary data was extracted from the audited annual reports and financial statements of individual companies sourced from the NSE and the CMA. In order to determine the relationship that exists between liquidity and dividend payout of the quoted companies at the NSE, a period of five years (2007-2011) was considered. Data collected was as per sectors of the individual sampled companies. The annual financial statements included the statement of comprehensive income and financial position.

3.6 Data Analysis and Presentation

The data is presented in form of tables and pie charts where appropriate. Tables were used for visual displays and to show figures as collected from consolidated annual reports and financial statements. Pie charts were used to show magnitude/relationship of the variables during the period of study. Descriptive statistics was used in the analysis through calculations of mean and percentages to measure and compare results. The coefficients of constants were obtained after applying advanced MS Excel and SPSS version 17. The explanatory power of the model was tested using R^2 , Adjusted R^2 , Multiple R, and Durbin Watson Statistic derived from output of SPSS version 17 after regressing the model.

3.7 Model Specification

There exists a relationship between dividend payout and liquidity and this is clearly shown as per the literature review done in Chapter 2. In order to identify the relationship and to show the extent of the strength, the following regression model will be used. The relationship between dividend payout and liquidity is shown after the definition of the notations:

Let:-

DPO = Dividend Pay Out

L = Liquidity

D/E = Leverage

P = Profitability

C= Cash flow

T= Corporate Tax

S = Sales Growth

I = Industry

EPS = Earnings per Share

b_0 =The Intercept of the Regression Equation.

$b_1, b_2, b_3, b_4, b_5, b_6, b_7, b_8$ = Regression Co-efficient of Independent Variables

E_t = Error Term

Regression relationship between liquidity and dividend payout: Gill, Biger and Tibrewala (2010) model

$$DPO = b_0 + b_1L + b_2D/E + b_3P + b_4C + b_5T + b_6S + b_7I + b_8EPS + E_t$$

Table 3.1 Definition of Variables

Dependent Variable	Definition
DPO	$\frac{\text{Yearly Dividend}}{\text{Net Income after Tax} + \text{Depreciation}}$
Independent Variable	Definition
Liquidity	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
Leverage	$\frac{\text{Total Liabilities}}{\text{Shareholders' Equity} + \text{Total Assets}}$
Profitability	$\frac{\text{Earnings before Interest and Taxes}}{\text{Total Assets}}$
Cash flow	Log of cash flow from operating activities
Corporate Tax	$\frac{\text{Corporate Tax}}{\text{Net Profit Before Tax}}$
Sales Growth	$\frac{\text{Current Sales} - \text{Previous Sales}}{\text{Previous Sales}}$
Industry	Firms in the manufacturing industry will be assigned to one , zero otherwise
Earnings Per Share	$\frac{\text{Net Income After Tax}}{\text{Number of Shares Held}}$

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter details the findings of the results and discussion of the study out of the data collected and analyzed. Data collected was further analyzed and presented in pie charts and tables as appropriate in terms of average, median, maximum, minimum, standard deviation, proportions and percentages. The chapter further explains and documents the various aspects of dividend payout and liquidity. The results and analysis have been presented in three sections that include the overall findings, the effects of liquidity on dividend payout by companies listed at the NSE and summary of the findings.

4.2 Overall Findings

This section presents data on various variables that affect dividend payout in the Kenyan market for companies listed at the NSE. Data collected was analyzed using descriptive statistics and summarized in tabular form (Appendices III, IV and V).

4.2.1 Net Working Capital

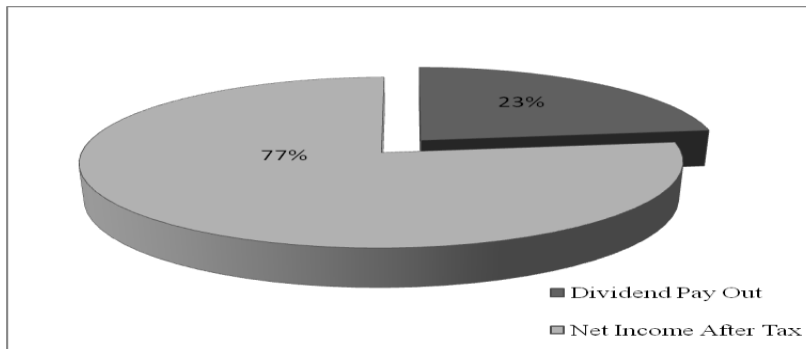
It measures the ability of the company to meet its obligations as they fall due. Data collected on net working capital is tabulated in appendix V. From the findings, Scan Group Ltd had the highest percentage of current assets to total assets of 90 % while Sasini Ltd had the least proportion at 13%. Within the period under the study, Safaricom Ltd and Express Kenya Ltd had negative net working capital and Kengen Ltd registered the highest level. Out of thirty four companies, Marshalls East Africa Ltd had the highest proportion of total liabilities to total assets of 76% and Carbacid Investments Ltd had the least level at 15 %. On average, the

market had a net working capital of Kshs. 1,793,845, 45% of current assets to total assets and 47% of total liabilities to total assets. (Appendix IV)

4.2.2 Dividend Payout Level

It presents to what proportion the company has paid dividend out of its profits generated. From the analysis, the Limuru Tea Company Ltd had the highest dividend payout ratio of 66% and the Kenya Airways the least of negative 49% (Appendix III). The data on proportion of dividend payout level to net profit after tax is presented in Chart 4.1.

Chart 4.1 Dividend Payout Level (2007- 2011)



Source: Computed based on data from Annual Reports and Financial Statements (2007 – 2011)

From chart 4.1, the average market dividend payout was 23% of total profits generated. This implies that companies were able to generate profits and pay dividend.

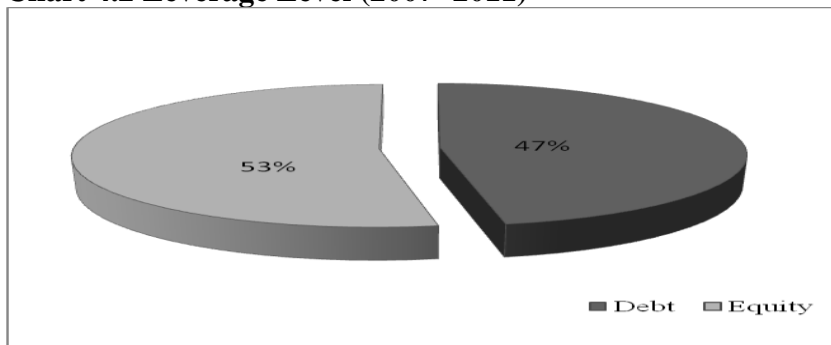
4.2.3 Liquidity Level

From the analysis, Carbacid Investment Ltd had the highest level of liquidity at 10.08 while Express Kenya Ltd the least at 0.42 (Appendix III and V). The mean market liquidity was 2.28 (Appendix III and IV) which indicates that the market is highly liquid since the indicator is above the rule of thumb which requires that current assets should be twice the current liabilities.

4.2.4 Leverage Level

Out of the thirty four companies considered, Marshalls East Africa Ltd had the highest level of 76% followed by Kenya Airways at 72% and Total Kenya Ltd at 68% while Carbacid Investment Ltd had the least level of 15% , followed by Eaagads Ltd and B.O.C Kenya Ltd at 24% and 26% respectively (Appendix III). The mean market leverage level between 2007 and 2011 was 47% (Appendix IV) which indicates that 47% of companies' capital structure is debt and 53% is equity financed. The data on proportion of debt to equity level is presented in Chart 4.2.

Chart 4.2 Leverage Level (2007- 2011)



Source: Computed based on data from Annual Reports and Financial Statements (2007 – 2011)

4.2.5 Profitability Level

The five most profitable companies are the Standard Group Ltd, the Limuru Tea Company Ltd, East African Breweries Ltd, the Nation Media Group Ltd and the British American Tobacco at 38%, 34%, 30%, 28% and 26% while the two least ones are Marshalls East Africa Ltd and Express Kenya Ltd at negative 2% and 3% respectively (See Appendix III).

4.2.6 Cash Flow from Operating Activities

Cash flow measures the liquidity level of the company and its ability to generate cash flow from its current assets and repay its current liabilities as they fall due. Safaricom Ltd recorded the highest level of cash flow from operating activities of 10.41 while Eaagads Ltd the lowest

level at 6.48. The mean market cashflow from operating activities was 8.64 (See Appendix IV).

4.2.7 Corporate Tax Level

It indicates to what proportion the company has paid taxes out of the profits generated. From the companies considered, East Africa Portland Cement Ltd recorded the highest level at 1.29 and Marshalls East Africa Ltd the least. The mean and median market corporate tax was 0.31 and 0.30 respectively (See Appendix IV).

4.2.8 Earnings per Share Level

It measures the return that ordinary shareholders earn from their investment in the firm. It is a critical indicator since it aims to achieve the goal of wealth maximization as one of the purpose of the firm. Between 2007 and 2011, Williamson Tea Kenya Ltd recorded the highest earnings per share level at Kshs. 43.76 while the least level was Marshalls East Africa Ltd at negative Kshs. 4.91(Appendix III). The negative earnings per share were due to losses recorded by Marshalls East Africa within the period under review.

4.3 The Impact of Liquidity on Dividend Pay Out by Companies listed at the NSE

To determine the impact of liquidity on dividend pay out by companies listed at the NSE, computed data of various variables were subjected to SPSS as per the model specification in Chapter Three and the regression model output is summarized in Table 4.3 below.

The estimated linear regression model was:

$$DPO = 0.022L + 0.035D/E + 1.157P - 0.005C + 0.001T + 0.0059S + 0.142I + 0.001EPS$$

Std. Error [0.016] [0.258] [0.367] [0.020] [0.148] [0.208] [0.083] [0.003]

Table 4.3: The Regression Results for the Effects of Liquidity on Dividend Pay Out by Companies Listed at the NSE (2007-2011)

Regression Statistics	
Multiple R	0.869
R Square	0.755
Adjusted R Square	0.651
Standard Error	0.177
Observations	34

ANOVA TABLE

	Degrees of Freedom df	Sum of Squares SS	Mean Squares MS	F Ratio	Significance F
Regression	8	2.512	0.314	10.024	0.000004
Residual	26	0.814	0.031		
Total	34	3.326			

	Coefficients	Standard Error	t Statistics	P-value	Lower 95%	Upper 95%
Liquidity Ratio	0.022	0.016	1.400	0.173	(0.010)	0.055
Leverage	0.035	0.258	0.136	0.893	(0.494)	0.564
Profitability	1.157	0.367	3.150	0.004	0.402	1.913
Cash flow	(0.005)	0.020	(0.236)	0.815	(0.045)	0.036
Corporate Tax	0.000	0.148	0.000	1.000	(0.304)	0.304
Sales Growth	0.059	0.208	0.282	0.780	(0.369)	0.486
Industry	0.142	0.083	1.718	0.098	(0.028)	0.312
Earnings Per Share (EPS)	0.001	0.003	0.313	0.757	(0.006)	0.008

Source: Regression Output obtained after applying SPSS

From Table 4.3, the Multiple R was 0.869, R Square was 0.755, adjusted R was 0.651 and Durbin Watson statistics was 1.555. The R Squared was used to test how well the estimated regression equation fits the data and to measure the goodness of fit for the estimated regression equation. The R squared of 0.869 implies that 86.9% of the determinants considered explain the dividend pay out model. Durbin Watson statistics of 1.555 lies between 1 and 3 and implies that the model was good. The P value of 0.000004 was less than α (0.05) hence reject the null hypothesis. In conclusion, there is positive association between the dividend pay out and liquidity of companies listed at the NSE between 2007 and 2011.

4.3.1 Liquidity Level

It measures the extent to which the assets can be converted into cash to pay firm's obligations. There is a positive association between liquidity and dividend pay out. Firms maintain high liquidity level in order to pay dividends as they fall due. High liquidity level strengthens firm's ability to pay dividend thus shareholders' confidence is enhanced.

4.3.2 Leverage Level

It shows the extent to which the firm has utilized external debt to finance its operations. The higher the leverage level, the higher the dividend pay out level. This means that in order to attract external debt, then the firm need to increase its dividend payout. Also, firms need to put necessary measures to avoid cases of liquidation.

4.3.3 Profitability Level

It indicates the return generated by total assets out of the investment held by the company. From the analysis, there is positive relationship between dividend pay out and profitability.

Dividends are paid out of profits generated thus existence of positive association. Higher profit is a signal of higher dividend payout.

4.3.4 Cashflow from Operating Activities

It is one of the critical determinants affecting dividend pay out. From the analysis, it shows that there is negative relationship between cash flow from operating activities and dividend pay out. Dividends are paid out of cash which eventually leads to cash shortage. In this case, the firm is left with less cash for investment and growth.

4.3.5 Corporate Tax Level

From the analysis, it is clear that there exists positive relationship between dividend pay out and corporate tax. Investors maximize on after tax incomes thus the relationship exhibited.

4.3.6 Sales Growth Level

Firms with high growth rate have high leverage level since they need external financing to facilitate their operations. This leads to positive relationship between dividend pay out and sales growth level. Investors are motivated with high dividend received which is in line with signaling theory.

4.3.7 Industry

From the analysis, all firms that fall under manufacturing industry were allocated one and zero otherwise. From the out put, there exists positive relationship between dividend pay out and industry.

4.3.8 Earnings per Share Level

Earnings per share are paid out of net income after tax thus considered as critical factor that affect dividend pay out. Positive relationship exists between earnings per share and dividend pay out. When the firm reports high profit level, then dividend level will increase and resultant effect will lead to high earnings per share. Firm's goal of wealth maximization is achieved since there is high earnings per share.

4.4 Summary of the Findings

The research sought to find out the effect of liquidity on dividend pay out by companies listed at the NSE between 2007 and 2011. Dividend pay out was considered as dependent variable while liquidity, leverage, profitability, cash flow, corporate tax, sales growth, industry and earnings per share as independent variables. From the findings as explained above, dividend pay out and liquidity level of companies listed at the NSE between 2007 and 2011 are positively associated. Dividend policy instituted by a firm is critical since it determines its growth and success thus it is one of the most debatable and controversial issue in the corporate decisions. Dividend policy of a firm affects the capital structure (mix of debt and equity) hence critical decision in establishing the wealth maximization goal of the firm. Companies listed at the NSE are highly liquid to curb the problems of financial distress. They maintain high liquidity level to settle dividend as they fall due.

The positive relationship between dividend pay out and leverage, profitability, corporate tax, sales growth, industry and earnings per share are due to the following reasons. Firstly, firms need external financing to boost their growth thus higher dividend pay out. As per signaling theory, higher growth in sales is a sign of higher dividend payout. Secondly, the earnings per share is paid out of the net earnings after tax thus affects the dividend pay out thus positive

relationship since managers are reluctant to reduce the earnings per share. The negative associations between dividends pay out and cash flow is that dividends are paid out of cash, stock or property which eventually reduces the cash flow position of a company. Firms will opt to generate cash flow and plough back profits to sustain their operations.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents discussions of the key findings presented in chapter four, its conclusions based on the findings and recommendations thereto. This chapter will therefore be structured into summary discussions on the findings, recommendations and areas of further research.

5.2 Summary

The study desired to find out the impact of liquidity on dividend payout by companies listed at Nairobi Securities Exchange in the period between 2007- 2011. The study showed that, there is a positive effect of liquidity on the dividends paid out. It revealed that the more liquid a firm is, the higher the dividends it pays. Other variables tested which had an impact on dividend pay out were leverage, profitability, cash flow, corporate tax, sales growth, industry and earnings per share.

From the data analysis, leverage, profitability, sales growth, industry and earnings per share had a positive impact on the dividend paid out, whereas corporate tax had no effect. Cash flow as one of the variables tested had a negative effect on dividend pay out and this can be explained by the fact that dividend is largely paid out of cash hence cash outflow and thus this affects the cash flow of the firm.

5.3 Conclusion

Findings from the firms considered in the study, presented that, there exist a positive influence of liquidity on dividend pay out. As the level of liquidity increases, the dividends paid out level do also increase and vice versa. From the data collected, analyzed and conclusion made thereof showed that, firms maintain high liquidity thresholds in order to mitigate any likelihood of financial distress and they do this by embracing the best business practices through optimum working capital management. It also showed that firms maintain high liquidity levels in order to settle dividends as they fall due. The study also revealed that profitability plays a major role in dividend payout and consequently the companies which posted higher profits translated this to higher dividends paid out to investors. Profitability of a firm is an indicator of a firms' capacity to pay dividends and thus higher profits declared signals higher dividend payout. Earnings per share had an insignificant effect on dividend pay out, meaning that even if the return per share is high; the same will not translate to higher dividends.

This study concurs with the findings of previous empirical studies done on liquidity. Ahmed and Javid (2009), Mahaparta and Sahu (1993) and Moradi, Valipor and Mousavi(2009) in their respective studies concurred that liquidity among other factors had positive impact on the dividends pay out and therefore firms with higher liquidity can afford to pay dividends without resorting to borrowing.

5.4 Limitations of the Study

Though the research was smooth, the following problems were encountered namely; the study used means/averages, this affects results since in some years the results are good and in others poor. Further, financial statements report historical data and therefore the future cannot

be adequately predicted due to the market volatility. The annual financial statements are also prepared under the fundamental assumptions and concepts which are subjective and therefore not be uniformly applied especially in terms of provisions and estimates. Lastly, most of the financial statements are reaffirmed in the preceding years meaning that material misstatements of firms' performance can create a window of opportunity for prior year's adjustments and this may not be brought to the attention of the public. This means the pattern depicted may affect the relationship established.

5.5 Areas of Further Research

The researcher recommends that further research be done on the relationship between price earnings ratio and leverage on dividend pay out policy adopted by firms. It further recommends that an event study be done in election years i.e. 2002, 2007 and 2012 and compare with other normal years to understand whether there is any impact on firms' behavior on dividends pay out. A similar study can also be done on firms operating in our neighboring countries i.e. Uganda, Tanzania, Rwanda and Burundi to confirm if the same pattern is depicted. Future research may also examine the non linear relationship among independent and dependent variables. Finally a study on this area can also be done on companies which are not listed at NSE,

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APPENDICES

Appendix 1: Companies Listed at NSE

Sector/ Industry	Name of the Company	
Agricultural	1. Rea Vipingo Plantation Ltd 2. Kakuzi Ltd 3. The Limuru Tea Co. Ltd	4. Sasini Ltd 5. Eaagads Ltd 6. Williamson Tea Kenya Ltd
Commercial and Services	1. Access Kenya Group Ltd 2. Car & General Ltd 3. Kenya Airways Ltd 4. Nation Media Group Ltd 5. Standard Group Ltd 6. TPS Eastern Africa (Serena) Ltd	7. Marshalls East Africa Ltd 8. Hutchings Biemer Ltd 9. Uchumi Supermarkets Ltd 10. Scan Group Ltd 11. Express Kenya Ltd 12. Safaricom Ltd
Finance and Investment	1. Barclays Bank of Kenya Ltd 2. Housing Finance Co. Ltd 3. Kenya Commercial Bank Ltd 4. CFC Insurance Holdings Ltd 5. Jubilee Holdings Ltd 6. Diamond Trust Bank of Kenya 7. Co-operative Bank of Kenya Ltd 8. Equity Bank Ltd 9. Kenya Orchards 10. Kenya Re- Insurance Corporation Ltd 11. British American Investments Co. Ltd	12. CFC Stanbic Holdings Ltd 13. Centum Investment Co. Ltd 14. National Bank of Kenya Ltd 15. City Trust Ltd 16. Trans-Century Ltd 17. Standard Chartered Bank Ltd 18. NIC Bank Ltd 19. Olympia Capital Holdings Ltd 20. Pan Africa Insurance Holdings Ltd
Industrial and Allied	1. Athi River Mining Ltd 2. Carbacid Investments Ltd 3. East African Breweries Ltd 4. Kenya Oil Ltd 5. Unga Group Ltd 6. Crown Berger (Kenya) Ltd 7. Total Kenya Ltd 8. Eveready East Africa Ltd 9. British American Tobacco Kenya Ltd	10. B.O.C Kenya Ltd 11. East African Cables Ltd 12. Sameer Africa Ltd 13. Mumias Sugar Company Ltd 14. Bamburi Cement Ltd. 15. East African Portland Cement Co. 16. Kengen Ltd 17. Kenya Power & Lighting Co. Ltd.

Source: NSE & CMA (2012)

Appendix II: Sample Used

- | | |
|------------------------------------|----------------------------------------|
| 1. Rea Vipingo Plantation Ltd | 18. Sasini Ltd |
| 2. Kakuzi Ltd | 19. Eaagads Ltd |
| 3. The Limuru Tea Co. Ltd | 20. Williamson Tea Kenya Ltd |
| 4. Access Kenya Group Ltd | 21. Marshalls East Africa Ltd |
| 5. Car & General Ltd | 22. Scan Group Ltd |
| 6. Kenya Airways Ltd | 23. Express Kenya Ltd |
| 7. Nation Media Group Ltd | 24. Safaricom Ltd |
| 8. Standard Group Ltd | 25. B.O.C Kenya Ltd |
| 9. TPS Eastern Africa (Serena) Ltd | 26. East African Cables Ltd |
| 10. Athi River Mining Ltd | 27. Sameer Africa Ltd |
| 11. Carbacid Investments Ltd | 28. Mumias Sugar Company Ltd |
| 12. East African Breweries Ltd | 29. Bamburi Cement Ltd. |
| 13. Kenya Oil Ltd | 30. East African Portland Cement Co. |
| 14. Unga Group Ltd | 31. Kengen Ltd |
| 15. Crown Berger (Kenya) Ltd | 32. Express Kenya Ltd |
| 16. Total Kenya Ltd | 33. British American Tobacco Kenya Ltd |
| 17. Eveready East Africa Ltd | 34. Kenya Power & Lighting Co. Ltd. |

Source: NSE & CMA (2012)

Appendix III: Descriptive Statistics of the Variables that affect Dividend Pay Out of Firms (Mean Statistics: 2007-2011)

	DPO	Liquidity Level	Leverage Level	Profitability Level	Cashflow	Corporate Tax	Sales Growth	Industry	EPS
Limuru Tea Ltd	0.66	7.93	0.31	0.34	6.86	0.36	0.16	0.00	25.36
B.A.T. Ltd	0.65	1.11	0.53	0.26	9.35	0.32	0.22	1.00	18.86
B.O.C Kenya Ltd	0.59	2.28	0.26	0.11	8.19	0.32	(0.05)	1.00	8.46
E.A. Cables Ltd	0.51	1.33	0.56	0.16	8.62	0.33	0.13	0.00	1.47
Nation Media Ltd	0.49	2.04	0.33	0.28	9.20	0.31	0.10	0.00	8.95
E.A. Breweries Ltd	0.45	1.71	0.37	0.30	9.97	0.28	0.15	1.00	8.88
Carbacid Inv. Ltd	0.44	10.08	0.15	0.19	8.37	0.28	0.13	1.00	10.55
Scan Group Ltd	0.33	1.86	0.51	0.13	8.36	0.27	0.34	0.00	1.95
Eaagads Ltd	0.31	7.23	0.24	0.11	6.48	0.35	0.37	0.00	1.67
Total Kenya Ltd	0.29	1.18	0.68	0.07	9.14	0.71	0.36	0.00	2.29
Standard Group Ltd	0.28	1.24	0.57	0.38	8.62	0.33	0.03	0.00	3.39
Bamburi Cement	0.27	2.19	0.41	0.25	9.71	0.30	0.14	0.00	13.09
Mumias Co. Ltd	0.25	1.84	0.37	0.12	9.23	0.12	0.12	1.00	1.37
TPS (Serena) Ltd	0.24	1.35	0.41	0.08	8.70	0.29	0.12	0.00	3.46
Safaricom Ltd	0.21	0.61	0.42	0.23	10.41	0.30	0.19	0.00	0.32
CMC Holding Ltd	0.20	1.44	0.61	0.08	8.56	0.27	0.08	0.00	0.99
Rea Vipingo Ltd	0.20	1.74	0.39	0.17	8.05	0.31	0.16	0.00	3.22
Kenya Oil Ltd	0.20	1.30	0.65	0.11	9.29	0.34	0.64	0.00	11.65
Williamson Tea Ltd	0.19	2.28	0.31	0.06	8.29	0.30	0.35	0.00	43.76
Crown Paints Ltd	0.18	1.46	0.53	0.09	8.35	0.45	0.17	0.00	3.49
Access Kenya Ltd	0.17	1.61	0.44	0.11	8.37	0.06	0.24	0.00	0.57
Kengen Ltd	0.17	4.83	0.45	0.04	9.64	0.01	0.02	0.00	1.43
Marshalls E.A. Ltd	0.17	1.24	0.76	(0.02)	7.51	0.00	(0.31)	0.00	(4.91)
Athi River Mining	0.16	1.06	0.67	0.11	8.87	0.22	0.21	0.00	7.67
Unga Group Ltd	0.14	2.08	0.37	0.08	8.24	0.27	0.15	1.00	1.08
Sameer Africa Ltd	0.14	2.77	0.30	0.08	8.00	0.22	0.02	0.00	0.42
Eveready E.A. Ltd	0.13	1.85	0.59	0.07	8.13	0.33	(0.11)	1.00	0.05
Kakuzi Ltd	0.10	1.75	0.37	0.18	8.64	0.29	0.13	0.00	16.04
Car and General	0.07	1.27	0.60	0.13	7.85	0.31	0.29	0.00	8.43
Sasini Ltd	0.06	2.35	0.28	0.11	8.36	0.37	0.20	0.00	1.39
K.P.L.C.	0.06	1.06	0.62	0.06	9.83	0.34	0.10	0.00	37.01
E.A.Portland Ltd	0.06	1.93	0.54	0.07	8.77	1.29	0.12	0.00	7.58
Express Kenya Ltd	0.02	0.42	0.66	0.03	7.96	0.01	(0.13)	0.00	(1.25)
Kenya Airways	(0.49)	1.14	0.72	0.06	9.81	0.28	0.10	0.00	4.40

Source: Annual Financial Statements (2007 – 2011)

Appendix IV: Descriptive Statistics of the Variables (2007-2011)

	Mean	Median	Maximum	Minimum	Standard Deviation
Dividend Pay Out Level	0.23	0.20	0.66	(0.49)	0.21
Liquidity Level	2.28	1.73	10.08	0.42	2.11
Leverage Level	0.47	0.44	0.76	0.15	0.16
Profitability Level	0.14	0.11	0.38	(0.02)	0.09
Cashflow from operating activities	8.64	8.50	10.41	6.48	0.85
Corporate Tax Level	0.31	0.30	1.29	0.00	0.22
Sales Growth Level	0.14	0.13	0.64	(0.31)	0.17
Industry Level	0.21	0.00	1.00	0.00	0.41
Earnings Per Share Level	7.44	3.42	43.76	(4.91)	10.45

Source: Computed based on Data from Annual Financial Statements (2007 – 2011)

Appendix V: Data on Proportion of Current Assets to Total Assets, Proportion of Total Liabilities to Total Assets and Liquidity

	Current Assets Kshs' '000'	Total Assets Kshs' '000'	% of Current Assets to Total Assets	Current Liabilities Kshs' '000'	% of Total Liabilities to Total Assets	Net Working Capital Kshs' '000'
Kengen Ltd	36,452,161	126,693,150	29	7,782,771	46	28,669,390
Kenya Oil Ltd	24,475,658	29,352,116	83	18,993,844	67	5,481,814
K.P.L.C.	23,173,879	76,537,459	30	21,784,186	63	1,389,693
Kenya Airways	20,513,800	76,412,400	27	18,428,800	72	2,085,000
Total Kenya Ltd	17,547,535	24,828,315	71	15,186,358	70	2,361,176
E.A. Breweries Ltd	17,158,603	37,163,088	46	10,739,522	38	6,419,081
Safaricom Ltd	16,962,330	88,086,498	19	28,425,202	42	(11,462,873)
Bamburi Cement	11,223,400	29,571,000	38	5,234,200	42	5,989,200
CMC Holding Ltd	10,631,993	12,777,640	83	7,460,999	61	3,170,994
Mumias Co. Ltd	5,271,505	17,011,157	31	2,996,705	38	2,224,801
B.A.T. Ltd	4,928,969	10,998,697	45	4,404,991	53	523,979
Scan Group Ltd	4,663,125	5,192,022	90	2,486,062	50	2,177,063
Nation Media Ltd	4,467,940	7,197,020	62	2,184,340	32	2,283,600
Unga Group Ltd	3,276,000	4,963,551	66	1,585,894	37	1,690,106
E.A.Portland Ltd	3,009,381	11,123,263	27	1,612,170	54	1,397,211
Athi River Mining	2,878,804	12,015,817	24	2,777,911	68	100,893
Car and General	2,293,400	3,489,144	66	1,842,782	61	450,618
Sameer Africa Ltd	2,160,978	3,091,088	70	803,234	30	1,357,744
E.A. Cables Ltd	1,880,455	3,861,631	49	1,468,973	55	411,481
TPS (Serena) Ltd	1,783,964	9,067,838	20	1,321,322	40	462,641
Crown Paints Ltd	1,344,782	1,904,066	71	925,424	53	419,358
Williamson Tea Ltd	1,250,686	4,523,450	28	545,356	31	705,330
Standard Group Ltd	1,206,150	3,127,109	39	982,814	56	223,336
Sasini Ltd	1,002,061	7,428,334	13	426,209	28	575,853
B.O.C Kenya Ltd	977,807	1,925,341	51	434,419	26	543,389
Eveready E.A. Ltd	821,942	1,046,201	79	537,882	60	284,059
Marshalls E.A. Ltd	697,593	1,226,142	57	565,909	76	131,684
Access Kenya Ltd	676,637	2,009,308	34	601,284	49	75,353
Kakuzi Ltd	673,057	2,989,073	23	397,360	35	275,697
Rea Vipingo Ltd	651,615	1,641,678	40	387,666	39	263,949
Carbacid Inv. Ltd	484,386	1,386,197	35	51,398	15	432,988
Express Kenya Ltd	170,904	1,111,969	15	447,537	66	(276,633)
Limuru Tea Ltd	65,318	109,907	59	9,914	27	55,404
Eaagads Ltd	59,563	336,492	18	12,212	23	47,351

Source: Computed based on Data from Annual Financial Statements (2007 – 2011)