

**EFFECT OF LIQUIDITY ON DIVIDEND POLICY OF
MANUFACTURING FIRMS LISTED AT NAIROBI SECURITIES
EXCHANGE IN KENYA**


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DECLARATION

I certify that this is my own original work and that it has not been submitted to any other institution for examination except the University of Nairobi.

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With my approval as the University Supervisor, this project work has been submitted for assessment.

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DEDICATION

This research work is dedicated to my ever-supportive parents.

God bless you abundantly.

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LIST OF ABBREVIATIONS AND ACROYNMS

CBK: Central Bank of Kenya

CR: Current Ratio

DER: Debt to Equity

DP: Dividend Policy

FS: Firm Size

MM: Miller and Modigliani

NSE: Nairobi Securities Exchange

OLS: Ordinary Least Square

DPR: Return On Asset

ROE: Return On Equity

ABSTRACT

Dividend policy decisions are among the most critical that firm managers must make in order to maximize shareholder wealth. When deciding on dividend policy, the optimal dividend pay-out ratio is determined by the firm's liquidity. This is because more liquid companies are more likely to pay higher dividends than less liquid companies. Although stock liquidity has been cited as a motivator for dividend policy, it has proven difficult to determine how this is possible in practice. The intention of the research was to see how liquidity affected the dividend policy of NSE-listed manufacturing companies. The anchoring theory for this study was dividend irrelevance theory complemented by transaction costs theory and tax preference theory. The study's population included all 9 NSE-listed manufacturing companies. Liquidity, defined as current assets to current liabilities in a particular year, was used as a predictor variable in this study. The control variables were profitability assessed by the return on equity, total assets natural log measuring company size, and leverage measured by the ratio of total debt to total assets per year. Dividend pay-out ratio served as the response variable representing dividend policy. Secondary data was collected on a yearly basis for five years (January 2016 to December 2020). The research variables were analyzed using a descriptive design. The results yielded a 0.422 R-square value, indicating that variations in the chosen independent variables account for 42.2 percent of changes in dividend policy amongst firms, whereas other factors accounting for 57.8% of variance in dividend policy amongst NSE listed manufacturing firms. Independent variables had a strong relationship with company dividend policy ($R=0.650$) in this study. The F statistic at 5% was significant with $p<0.05$, according to the ANOVA results. This demonstrated that the overall model was effective in determining the variables' relationships. Liquidity had a positive as well as statistically significant impact on dividend policy and this implies that a rise in liquidity would result to an increase in dividend policy. Profitability also had a positive as well as statistically significant impact on the dividend policy of the NSE listed companies while leverage exhibited a negative and significant influence. In this research, the size of the firm had no statistical significance. This study recommends that NSE-listed manufacturing companies should maintain sufficient levels of liquidity, improve profitability positions, and have a target leverage level, as the three factors has a substantial influence on their dividend policy. Policy makers such as CMA should also come with target liquidity levels for manufacturing firms as this will enhance the dividend policy of such firms. Future researchers should focus on other variables that can influence dividend policy of listed firms. Future studies can also focus on other listed firms that were not considered in this study. In addition, a qualitative study can be conducted to compliment this study as it will be able to capture the qualitative aspects not captured in this study.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Liquidity is the ability to fund short-term obligations with current assets (Pattiruhu & Paais, 2020). It is therefore critical for a company to manage its liquidity in an effective manner in order to ensure that it can fund its short-term responsibilities whenever they become due. As a result, the balance between current assets and liabilities must be maintained. In liquidity management, a company's ability to pay is determined by comparing the amount of cash and near-cash assets it has versus the amount of debt it has (Tahu & Susilo, 2017). Because if a firm's current liabilities exceed current assets, it becomes difficult to meet its short-term financial obligations. This could have a negative impact on the company's business operations as well as its ability to pay dividends (Pattiruhu & Paais, 2020). Firms are required to make important dividend policy decisions on an irregular basis. Managers seek to maximize shareholder wealth, which is defined as the firm value as gauged by the common stock of a firm (Tahu & Susilo, 2017).

The anchoring theory for this study was dividend irrelevance theory complemented by transaction costs theory and tax preference theory. The anchoring theory was chosen since it advocates that a firm's value is independent of the dividend policy that is set. Thus, stockholders are unconcerned about capital appreciation generated by retention versus dividends. Amihud and Mendelson (1986) proposed Transaction Cost Theory and states that current financial markets are rife with frictions that affect stock prices. Litzenberger and Ramaswamy (1979) advocated for Tax Preference Theory and pointed that some investors place a higher value on long-term capital gains than they do on current dividend yield. Investors tend to acquire stocks which are highly priced if the company reinvests earnings in capital-appreciating projects rather than dividends (Fajaria & Isnalita, 2018).

It has been suggested by Botoc *et al.* (2014) that a firm's dividend policy may be influenced by the availability of liquidity in the developing markets. Banerjee *et al.* (2007) posit that there is a relationship between liquidity and dividend payouts that exists. They conducted their tests with control variables such as the growth, size, and profitability of the firms. They came to the conclusion that companies with stocks that possess low liquidity are more likely to pay dividends, and the converse is also true. However, studies conducted by Jiang, Ma, and Shi (2017) came to the conclusion that there is a positive association between share liquidity and dividend policy, and that this relationship exists. Although stock liquidity has been cited as a motivator for dividend policy, it has proven difficult to determine how this is possible in practice. Modigliani and Miller (1961) developed the irrelevance theory of dividends, which has attempted to provide a solution to the problem of dividends being irrelevant. They proposed that in a world of no friction, dividends are irrelevant making the market perfect. Investors' wealth is deemed to be generated from investment projects and whenever a stockholder needs cash, he can sell his asset quickly as stocks are highly liquid.

1.1.1 Liquidity

Liquidity refers to a company's ability to issue bonds on capital markets or obtain funds in the form of loans in a short period of time. The ease with which a stock is changed into cash, with no delay or price changes caused by trading costs, is referred to as stock liquidity (Damodaran, 2006). Illiquidity refers to a situation whereby the sale assets cannot take place immediately. The financial literature strongly acknowledges that a firm's liquidity has a significant bearing on dividend payment (Jensen, 1996). Crockett (2008) pointed that liquid market has four main characteristics, that is, they are depth meaning that they have capacity to trade large transactions without unnecessarily affecting prices; they have imminence meaning that they can be quickly used for transactions; tightness meaning that the difference between bid and

offer prices is profitable; and that they are flexible meaning that prices can easily be restored back to normal whenever there is disruption.

In his study, Keynes (1930) posit that asset tend to be more liquid if it can be converted without loss. In their contributions, Ahmed and Javad (2019) identified a link between firm liquidity and dividend payment behaviour. Stable firms, in contrast to those that are cash-strapped, have the cash flow necessary to meet their current obligations as they become due, leaving them with outstanding balances that can be used to reward investors through dividend payouts. The liquidity status of a company, according to Ahmed and Javad (2019), is a significant driver of dividend payments. When compared to companies with liquidity issues, dividend payments are becoming increasingly reliant on cash flows, which represent the ability of an organization to pay dividends. Because of the cash constraint, a company with a poor liquidity position will pay a lower dividend.

Liquidity measures a company's ability to cater for financial obligations when due without tempering company's daily processes. The current ratio and working capital are two recommended liquidity measures (Mahfoudh, 2014). The current ratio assesses the connection between total current business assets and total current firm liabilities. It is a relative measure rather than an absolute monetary metric. The greater the percentage, the more liquid the business is considered to be. After the sale of current business assets and payment of all current firm liabilities, working capital is a determiner of money available for acquiring inputs and inventory goods. Working capital is measured in absolute dollars, and defining a sufficient level of working capital is dependent on the size of the firm (Du Rietz & Henrekson, 2000). It is critical for businesses to create a detailed portfolio that balances their assets and liabilities. Furthermore, they should create an environment that promotes positive cash flow in the market

and accumulate extra reserves to help them overcome the challenges of high interest rates in order to reduce earnings disparities (Gonga & Sakaka, 2017).

1.1.2 Dividend Policy

Dividends are payments made to shareholders in exchange for what they invested in a firm. When it comes to dividends, management adheres to a set of rules known as the dividend policy (Dewasiri, Koralalage, Azeez, Jayarathne, Kuruppuarachchi & Weerasinghe, 2019). A company's dividend policy determines how much profit is retained and how much is distributed as a dividend to shareholders. The payment of dividends depletes cash reserves, whereas retained earnings serve as a significant source of internal finance for long-term expansion. In the financial world, dividends are the earnings that shareholders receive as a result of their ownership of a company's stock. Because of this, both investment and dividend decisions should be taken seriously at the same time in order to maximize shareholder wealth, rather than separately (Driver, Grosman & Scaramozzino, 2020). So the dividend payment made by a company has an effect on the liquidity and profitability of the organization. Dividends payment reduces also the amount of liquid capital available to meet the demands of creditors and lenders who have a short-term financial horizon. Because of this, it may have a negative impact on a firm's ability to survive, with the result that the firm may go bankrupt (Duygun, Guney & Moin, 2018).

Company executives must make important financial decisions on a regular basis, and the dividend policy of a company is one of the most important financial decisions they must make (Baker & Powell, 1999). It has an effect on the price of stocks and, as a result, on the returns earned by investors. The ability of a company to finance its growth and equity base by retaining cash on hand, increasing gearing, and utilizing leverage is also affected (Kinyua, 2013). When it comes to contemporary financial economics, dividend misery, both as a measure of the value

of a policy share as well as a feature that increases the value of a policy share, ranks among the most difficult issues to resolve. As Amidu (2017) points out, a company's dividend policy has an impact on its overall performance, particularly on its profitability as measured by the return on assets.

Dividend policy, which is a decision-making strategy that helps determine the amount of dividends paid out by publicly traded companies and when they are paid, guides the amount of dividends paid out by these companies. A financial decision that corporate executives must make, it is said to be of utmost importance (Pattiruhu & Paais, 2020). Wahjudi (2019) discovered that companies with high dividend payouts have a tendency to send a message to their shareholders and investors that their future profitability will be higher but that their past earnings growth will be lower. For the purpose of determining its dividend policy, a company can choose from one of four primary options, each of which is described in detail below and is based on various factors that influence an organization's dividend policy (see below). All of these factors, as well as investment opportunities and expected earnings fluctuations, as well as tax regimes and a company's financial flexibility, regulatory constraints, and floatation expenses, influence a company's dividend policy. Investment opportunities and expected earnings fluctuations are also important factors to consider (Kanakriyah, 2020).

Dividends are crucial to shareholders and potential investors because they demonstrate a company's earnings. Thus, healthy dividend payouts signal that corporations are producing actual money rather than just disguising their books (Barron, 2002). Zhou and Ruland (2006) posit that despite market watchers' conflicting opinions, big dividend pay-out corporations likely to have good future earnings but relatively poor historical earnings growth. Dividend policy was measured using earnings per share and the dividend pay-out ratio.

1.1.3 Liquidity and Dividend Policy

Modigliani and Miller proposed the Dividend Irrelevance Theory in 1961, and it has been in use ever since. As stated in the theory, it is immaterial whether investors receive dividends now or capital appreciation later in the investment's life. Current dividend increases, according to these authors, are required to be offset by reductions in share prices at the end of their respective holding periods. This is due to the need to redirect the dividend stream from current shares in order to attract outside capital, allowing for bigger future dividend payments. It was founded on an incorrect assumption that markets tend to be frictionless and that there are no direct or indirect costs associated with trading despite the fact that it is one of the most important financial theories. When it comes to financial markets, trading friction is common, and it is easy to think that the more liquid a stock is, the better the stock is. The notion that investors prefer dividends whose size is proportional to the liquidity of the stock in question is also easy to believe (Banerjee et al, 2007). Divestiture-paying stocks provide investors with the liquidity they require in order to make their investment decisions.

According to a number of previous studies, there may be a connection between liquidity and dividend policies. Botoc and Pirtea (2014) came to the conclusion that the dividend policy of a company can be influenced by the availability of stock in a company with a growing market capitalization based on their findings. As previously mentioned, Banerjee and colleagues (2007a) discovered a relationship between stock liquidity and dividends. They conducted their tests with control variables such as the growth, size, and profitability of the firms. Jiang, Ma, and Shi (2017) came to the conclusion that a positive link exist between share liquidity and dividends policy, and also this relationship is a result of their research.

In their contributions, Ahmed and Javad (2009) identified a link between firm liquidity and dividend payment behaviour. Stable firms, in contrast to those that are cash-strapped, have the cash flow needed to meet current obligations as they become due, leaving them with outstanding balances that can be used to reward investors through dividend payments. Although Easterbrook (1984) acknowledged that liquidity affects dividends, he also claimed that many firms have a culture of misappropriating liquid funds. Hence, as Jensen points out, investors have adopted the preference for dividends to be paid as a control tool to alleviate vices like lucrative allowances, fraud and investment in projects with negative net present value (1986).

1.1.4 Manufacturing Firms in Kenya

Manufacturing sector in Kenya is among the vibrant sectors in terms of dividend payout and is the most important sector among NSE-listed firms in terms of market capitalization (KAM, 2019). According to the literature, East Africa Cables, Bamburi cement, and Tyre firm Sameer were among the top dividend-paying companies in 2016, along with East Africa Breweries (Kenya), B.O.C Kenya, Unga Group, and Carbacid Investment. However, it is worth noting that a couple of other well-known companies in this category, Mumias Sugar Company and Eveready East African, appear to have failed to report dividends during the same time period, which is a source of concern that this investigation will attempt to uncover (NSE, 2019).

In the East African region, Kenya's manufacturing industry, which consists of 10 companies listed on the NSE, is the most outstanding in terms of performance, as evidenced by a World Bank report titled anchoring High Growth, Can Manufacturing Firms Contribute More, released by Diarietou Gaye country director in March 2015, and it was also ranked 17th in Africa.

According to the Business Daily newspaper on February 4th, 2017, Kenya's manufacturing sector is rated the best among other industries in terms of dividend payment and the most significant sector among listed firms on the NSE in terms of market capitalization. East Africa Cables, Bamburi cement, and Tyre firm Sameer were among the best firms that paid dividends in 2016, according to the literature, along with East Africa Breweries (Kenya), B.O.C Kenya, Unga Group, and Carbacid Investment. However, it is worth noting that a few other reputable firms in this category, Mumias Sugar Company and Eveready East African, appear to have failed to declare dividends during the same period, which is a source of concern that this investigation will attempt to uncover.

Dividends can be distributed to investors in a variety of ways, such as property dividends, which are issued in the form of an entity's products, and bond dividends, which are pertinent when company lacks liquidity and dividends are thus pegged to bonds with a future maturity. When a company wants to increase its market capitalization, a stock dividend is preferred, despite investor concerns about share depreciation due to market volatility, as demonstrated by Salehi and Rostami (2009).

1.2 Research Problem

Dividend policy decisions are among the most critical that firm managers must make in order to maximize shareholder wealth. When deciding on dividend policy, the optimal dividend pay out ratio is determined by the firm's liquidity (Sondakh, 2019). This is because more liquid companies are expected to yield higher dividends than less liquid companies. Liquidity tends to reward long-term investors who do not actively trade their assets. Because such an investor will be rewarded with higher dividends (Fajaria & Isnalita, 2018).

Companies listed on the NSE have been working hard to maintain a favourable business climate since the global financial crisis ended in 2008-2009 (Yegon, Cheruiyot & Sang, 2014). Because of this, while most NSE-listed manufacturing companies have improved their performance and dividend payments over the last decade, others have declined, and some have been delisted. These businesses have been restructured financially, with little attention paid to improving their liquidity (Olang, Akenga & Mwangi, 2015). This is because financial managers still lack adequate guidance for achieving desired liquidity levels. As a result, listed manufacturing companies have had liquidity issues, causing loss of wealth and investor confidence (Olang, Akenga & Mwangi, 2015).

Several studies on liquidity and dividend policy have been conducted previously. Akhtar (2018) studied the impact of stock liquidity on dividend pay-outs for non-financial firms listed on the Pakistan Stock Exchange. The findings revealed a positive link between stock liquidity and dividend payout. Na'ura (2016) looked at quoted Jordanian banks to see if there existed a link between stock liquidity and dividend policy. The study concluded that stock liquidity could predict dividend ratio, raising the question of whether stock liquidity can replace dividends. Locally, Komora (2018) discovered that stock liquidity has no influence on bank dividend pay-out policy at the NSE. Olang, Akenga and Mwangi (2015) found that profitability is crucial while paying out dividend due to the higher coefficient than cash flows and working capital. Despite these studies, no research has been done in Kenya on the impact of liquidity on dividend policy of manufacturing companies listed on NSE. Thus, the current study focusses on the impact of liquidity on dividend policy of manufacturing firms listed on the Nairobi Securities Exchange.

1.3 Research Objective

The study purposed to find out the effect of liquidity on dividend policy of manufacturing firms listed at Nairobi Stock Exchange.

1.4 Value of the Study

The primary objective of the current study was to find out the impact of liquidity on the dividend policy of manufacturing organizations which are publicly traded on the NSE. As a result, the findings of the current study are of great importance to a variety of parties who are interested.

First, the study results obtained are of great value to managers of manufacturing firms listed at NSE as it guides them in making informed decisions on their firms' liquidity as they attempt to maximize shareholders' wealth by improving their dividend payments. This can be achieved only when managers and policy makers understand how liquidity level affects the firm's dividend policy.

The findings of the empirical evidence also serves as a platform for researchers, students, and academicians to use as a guide for developing research topics as well as a source of knowledge in answering questions about the topic, according to the researchers, students, and academicians. More than that, because the study contributes to the body of knowledge in the finance discipline, it also serves as a foundation for future research in the field.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Literature review summarizes extant research studies on a particular topic. Theoretical and empirical literatures are expounded in this chapter in the following format. The theoretical literature is introduced in Section 2.2, Section 2.3 explores the determinants of dividend policy, empirical literature is reviewed in Section 2.4, the conceptual framework is covered in Section 2.5, while the last section summarizes the whole literature review.

2.2 Theoretical Literature

Theories of all kinds have been discovered to interpret the origin of liquidity and the puzzle of dividends. This section first presents two theories on stock liquidity and later on discusses the three main theories of dividends.

2.2.1 Dividends Irrelevance Theory

This theory was advocated by Miller and Modigliani pioneered it (1961). According to the theory, a firm's value is independent of the dividend policy that is set. It implies that stockholders are unconcerned about capital appreciation generated by retention versus dividends. It is also based on the assumption that in a perfect market, investors are rational. A perfect market is one in which all participants have equal information about share characteristics and there are no taxes, transaction costs, brokerage fees, or even floatation costs.

Because of market imperfections, the MM's hypothesis does not hold in practice. Investors are thought to be irrational, there is information asymmetry, and taxes and other transaction costs exist, all of which should be factored into dividend relevance (Lease, 2000). The theory explains how the share price is established by company's future activities and earning potential,

and how a shareholder can formulate his dividend policy by buying and selling shares. This is not true because investors who are not well informed about a company's performance use dividend payments as a signal (Frankfurter & Wood, 1997).

These market imperfections reflect frictions that indicate illiquidity, where less liquid stocks are not preferred over more liquid ones because stockholders may prefer dividends earned from stock liquidity. In other words, a company with more liquid shares (low friction shares) is less likely to pay dividends than a company with less liquid shares—an inference known as the liquidity hypothesis of dividends (Modigliani & Miller, 1986).

2.2.2 Transaction Cost Theory

This theory was developed by Amihud and Mendelson (1986) in order to determine trading costs associated with trading costs. Transaction costs include, among other things, process order fees, transaction taxes, brokerage fees, transaction taxes, and process. Current financial markets are rife with frictions that affect stock prices. These frictions, as a source of illiquidity, tend to affect a stock's future cash flows (capital gains and dividends). They also discovered that assets with larger bid-ask spreads earned higher returns.

Amihud et al. (2005) also discovered that stockholders who hold their assets for a longer period of time receive compensation from illiquidity that exceeds the expected execution costs for processing assets with wider spreads. Information asymmetry is a major determinant of transaction costs. An efficient market is one in which all market participants have symmetric information. In practice, however, this is not the case because market participants transform information in different ways. Asymmetric information, as a liquidity cost, can be used by traders to make large profits by purchasing an undervalued stock and selling it when it

appreciates, implying higher returns on capital gains and dividends (Morck, Benard & Wayne, 2007).\

Furthermore, transaction costs have a direct impact on a stock buyer's profits. Markets with high transaction costs are considered less liquid than those with low transaction costs (Atkins & Dyl, 2007). Large transaction costs translate into lower stock returns and, specifically, lower expected dividends. This theory was relevant to this study because it explains how trading costs, which are components of stock liquidity, affect stock returns.

2.2.3 Tax Preference Theory

The relevance of dividends is supported by this theory. Litzenberger and Ramaswamy pioneered this theory in 1979. According to this theory, shareholders prefer a lower income or capital gain on financial securities they own over a dividend income. Due to the fact that dividends are usually taxed at a higher rate than capital gains, over the long term, capital gains outweigh dividends. Generally, taxes on stock resale are paid at the time of sale, whereas dividend taxes are generally distributed at the yearend in which the dividends are paid. Despite the favourable capital appreciation treatment, stockholders may choose a lower dividend pay-out over a higher pay out (Gordon, 1963).

Taxes, in fact, have an impact on dividend payments. Taxes are trading costs incurred during order execution. According to this theory, the more liquid the stock, the more tax fees it will incur and the fewer dividends it will earn because investors will avoid it. Tax rates for stockholders differ, so companies with high dividend pay-out ratios can attract investors with low marginal tax rates, though this will only be advantageous if the stocks are not actively traded on a market (Dhaliwal, Krull, Li & Mosez, 2015). The application of this theory to the study is that a lower dividend pay-out ratio will maximize an entity's value; this is effective in

a highly liquid market because those investors typically view a company being a place where their money can temporarily grow at a tax free rate.

2.3 Determinants of Dividend Policies

2.3.1 Financial Leverage

An entity's financial framework is made up of debt and equity. The percentage of debt acquired by an entity is referred to as leverage. Leverage carries risk because the debt acquired must be repaid through interest and principal payments (Hung, Ha & Binh, 2018). It is mostly concerned with financial activities that involve raising funds from external sources and bearing the fixed charge against those funds. High-leverage companies are expected to pay lower dividends than their less leveraged counterparts (Dang, Vu, Ngo & Hoang, 2020). All equity firms are expected to pay higher dividends than financial leveraged companies in order to mitigate the problems associated with agency that may arise as a result of free cash flows, as opposed to financial leveraged companies.

Due to the fact that financial leverage possess a substantial impact on shareholder payoff while having no effect on the cost of capital, it is commonly used in business operations (Ajibade & Agi, 2020). The use of financial leverage has a direct impact on the profitability per share and the return on equity of a company, respectively. While these figures are accurate in theory, in practice the return on equity (ROE) and earnings per share (EPS) are significantly higher than these figures. It is possible for a company to use financial leverage to magnify both the gains and losses experienced by its shareholders at the same time. As a factor in determining dividend policy, financial leverage is also important, and it should be taken into consideration when making dividend policy decisions (Sarwar, Xiao, Husnain, & Naheed, 2018).

2.3.2 Profitability

Profitability is defined as the ability of the firm to yield profits at a specified rate of sales, capital and assets. It is measured in dollars. A higher emphasis on profitability analysis by long-term investors will result in profits being disbursed to shareholders, for example, in the form of dividends, rather than retained by the company. When a company makes a profit, dividends are paid out as a percentage of that profit to its shareholders. The likelihood of a business paying dividends is low if it is in the red. When determining a company's dividend policy, profitability is a critical factor to consider (Tamrin, Mus & Arfah, 2018).

Companies with high levels of profitability pay out small dividends; however, if the company's profitability begins to deteriorate, the company will increase dividend payments in order to maintain the company's reputation among investors. Total assets are measured by their profitability, which demonstrates the ability of the capital invested to produce profits (Pattiruhu & Paais, 2020). The likelihood of a dividend being paid to shareholders increases as the company's profitability increases. Profitability and revenue generation capabilities of a company have an impact on the dividend policy of that company. If a business is profitable, it earns a lot of money and, as a result, has a lot of money available to distribute to shareholders in the form of dividend payments. Profitability increases the amount of dividends paid to shareholders or the amount of money set aside as retained earnings for future use (Fajaria & Isnalita, 2018). The firm profitability has an impact on its dividend strategy because dividends are calculated as a percentage of net income. As a result, if the company's earnings increase, the dividend will be paid out as a result of the increase in earnings.

2.3.3 Firm Liquidity

Assets are those that are used in the operation of a business, and growth is considered to be one of these assets. The higher the profit margin of a company, the greater the amount of money

that must be spent to finance the company's expansion. Dividends must be kept to a bare minimum in order to preserve capital for future growth. Dempsey *et al.*, (2019) discovered a positive link between a firms' growth rate and its ability to maintain a dividend policy. Fahmi (2014) is defined firm growth as the ability of a company to expand and develop one of its assets. If the management company is successful in maximizing the use of the company's assets, the profits of the company will increase. The dividend policies of the company's management are influenced by the company's growth. The relationship between growth opportunities and dividend pay-outs can be viewed from two perspectives (Fajaria & Isnalita, 2018). The first point to consider is that dividend payments reduce the amount of money available for investment. Second, paying dividends implies that the company has foregone net earnings, which are the most cost-effective source of funding. Dividends and investments appear to be competing for cheap internal funds (Al-Najjar & Kilincarslan, 2018).

Firms in rapid expansion require funds to support their projects. As a result, they result in the payment of very low or no dividends. However, entities with limited development opportunities may pay out higher dividends in order to prevent managers from squandering available cash flows (Jensen, 1986). A firm in its maturity stage tends to have fewer growth opportunities, which causes it to increase its dividend payout ratio. This is due to more funds being available and a low systematic risk (Yousaf, Ali & Hassan, 2019). Furthermore, they explain that increasing a firm's dividends may convey to stockholders that the managers are committed to not over-invest. This factor is critical in firm dividend decisions.

2.3.4 Firm Size

Lintner (1956) established the link between size of the firm and dividend policy. He discovered a link between business size and investor dividends (Tahir & Mushtaq, 2016). It influences managers' dividend policy decisions. Small businesses paid dividends at a rate of 49%, compared to 87% of large businesses (Jiang *et al.*, 2017). Larger firms are perceived to be more

mature, and thus have a better chance of obtaining low-cost capital financing. This means that internal funds are used less for financing, more profits are available, and a higher dividend payout is almost certain. Smaller businesses, on the other hand, must reinvest their profits in order to grow. As a result, such companies may declare a low dividend payout (Fajaria & Isnalita, 2018).

In contrast, another study in Indonesia discovered that larger firms paid lower dividends to stockholders. This was attributed to the fact that there was a lot of money available and the managers could squander it without the knowledge of shareholders, who are the owners of the companies but have no direct control over them (Dempsey *et al.* 2019). These studies came to a variety of conclusions about the link between size and dividend policy, with some indicating a positive association between the two variables in question and others demonstrating a negative link between the two variables.

2.4 Empirical Literature

2.4.1 Global Studies

The relationship between Dividend Policy (DP) and the variables Return-On-Equity (ROE), Current Ratio (CR), Debt-to-Equity Ratio (DER), Return-On-Assets (DPR), Firm Size (FS), and Debt-to Equity Ratio (DER) in property companies and real estate that were listed on the Indonesia Stock Exchange was investigated by Pattiruhu and Paais (2020) between 2016 and 2019. The explanatory analysis approach, as well as linear regression, are employed in the research methodology of this investigation. Nine companies were chosen for inclusion in the sample on the basis of the data's eligibility and homogeneity, with the remaining companies being excluded. The first step in the data analysis procedure is the conversion of ratio data into interval data, which is then converted into ordinal data. It was discovered in this research that

return on equity (CR), return on assets (DPR), and company size had no positive or statistically significant impact on dividend policy.

Several researchers in Russia, including Sugiastuti, Dzulkirom, and Rahayu (2018), looked into the relationship between profitability, leverage toward dividend policy, and firm value. Using Partial Least Squares, this study analyzed data from 15 banking companies that are publicly traded on the Indonesian Stock Exchange. In business, profitability is a critical factor in the success of the organization because it indicates the amount of profit made by the management team. A business is said to be successful if it is able to generate a profit by generating more revenue than it costs to operate. Increased profitability indicated that the firm's future prospects were extremely favorable, and investors would have interpreted this as a signal to invest. The study's findings indicate that profitability has a sizable impact on dividend policy.

In the United States, Banerjee, Gatchev, and Spindt (2017) investigated the relationship between pay-out policy and market liquidity. They used some control variables in their study, which were firm size, growth opportunities, and profitability, because these variables are determinants of dividend policies and have a relationship with stock liquidity. In their analysis, they used trading volume, illiquidity ratio, and proportion of days with no trading as liquidity measures, as well as previous dividend policies of firms. The findings were that in liquid markets, shareholders have less demand for dividends from shares they own because they can easily make home-brewed cheap dividends. As a result, companies with highly liquid stocks have a lower incentive to pay cash dividends to stockholders. Although the study demonstrated the substitution of liquidity for dividends, there are many other countries with different institutional arrangements than the United States where this relationship may not exist.

Griffin (2016) did a study to Australia, Canada, the United Kingdom, Hong Kong, Mexico, Brazil, and Argentina to conduct her research. Dividend per share and turnover were used as the predicted and predictor variables, respectively. Between stock liquidity and dividend pay-out policy, the study discovered a negative and inverse relationship. Dividends, she noted, are paid to compensate stockholders for decreased stock liquidity. Additionally, the study established that where dividends are paid, the demand for liquidity is eliminated because shareholders are not forced to wait for buyers or make a sacrifice in order to obtain low prices; thus, dividends provide stock owners with the revenue they require.

2.4.2 Regional Studies

Okoro, Ezeabasili and Alajekwu (2018) conducted an investigation into the factors that impact dividend payout in Nigerian consumer goods companies. On the Nigerian Stock Exchange, there are 28 consumer goods companies that are publicly traded. Over a ten-year period from 2006 to 2015, nine consumer goods companies were selected for inclusion in the study through the use of purposive sampling. Data from secondary sources, such as company websites and audited financial statements, was gathered for the purposes of this study. Specifically, the findings show that a company's market value has a statistically significant positive effect on dividend pay-out; profitability has a statistically significant positive effect on dividend pay-out; leverage has a statistically significant negative influence on dividend pay-out; company size has a statistically significant negative effect on dividend pay-out; and the dividend paid the previous year has a statistically significant positive effect on dividend pay-out. According to the findings of the study, the market value of the company and the dividends paid during the preceding year are the most important determinants of dividend payout in Nigeria's consumer goods sector.

With the help of evidence from Tanzanian manufacturers, Epaphra and Nyantori (2018) examined determinants of dividend policy in the country. Among the dividend policy measures studied between 2008 and 2016, the dividend yield and dividend payout are two that stand out. It appears that dividend policy determinants differ subject to the dividend policy proxies used, profitability and investment opportunities available. On the one hand, dividend yield is influenced by several factors, including size of the firm, ROE, market-to-book value ratio, retained earnings-to-total assets ratio and business risk. On the other hand, liquidity, business risk, and the retained earnings to total assets ratio all appear to have an impact on dividend payouts, according to the data. While on the other hand, when liquidity is excluded from regression models, the return on asset ratio has an impact on both dividend yield and payout. Most of the time, using dividend yield as a proxy for dividend policy and return on equity as a proxy for profitability yields better results than the other two.

After conducting an investigation into the effect of dividend policy on performance on the Ghana Stock Exchange, Amidu (2017) came up with the conclusion that dividend policy does have an effect on company performance, specifically profitability, as measured by DPR. A statistically significant positive relationship was found between the DPR, dividend policy, ROE and sales growth among other things. This demonstrated the effect of a dividend policy on the profitability of a company's operations. The researchers also discovered that there is a statistically significant relationship between profitability and the dividend pay-out ratio.

Amidu and Abor (2017) used panel data regression to investigate factors that influence the dividend payout ratio of a company that was publicly traded on the Ghana Stock Exchange between 2008 and 2013. The findings revealed that the dividend payout ratio had a positive and statistically significant impact on the firm profitability. Because the greater ability of an organization to convert its assets into profits, the more likely it is that it will declare a higher dividend payment in order to reward shareholders. Badu (2013) conducts an examination on

factors that impact dividend payout policies of Ghana's publicly traded financial institutions, which are referred to as PFIs. The study examined panel data for the selected companies from 2005 to 2009, and the results were published in 2009. Age and liquidity have a statistically significant and positive relationship, whereas profitability, collateral, and dividend payments have a statistically insignificant and negative relation.

Using data from Nigerian publicly traded banks from 1990 to 2010, Osegbue, Ifurueze, and Ifurueze (2014) investigate the link between dividend payout and firm performance. According to the findings, there is no statistically significant relationship between bank dividend payout and any of the explanatory variables used in the study, including bank size (current profitability, free cash flow, financial leverage, tax paid and business risk). When Odesa and Ekezie (2015) looked at the dividend payout determinants of selected Nigerian listed companies, they used cross-sectional data from 131 firms employing a multiple and linear regression technique. However, debt, shareholding structure, profitability and the most recent dividend paid are all positively and significantly correlated with dividend payout ratio, according to the findings. In contrast, dividend payout ratio is negatively correlated with investment opportunity, consistency in dividend payments.

2.4.3 Local Studies

According to Bulla (2021), the determining factor of dividend payout in developing stock markets were investigated using data from publicly traded companies on Kenya's Nairobi Securities Exchange. Using a triangulation approach, it is possible to compare results from panel and cross section data sets. The determinants of dividend policy were explained using panel data estimation techniques, whereas cross section data were analyzed using logistic regression. Several studies have found that dividends paid by NSE-listed companies are influenced significantly and projected by prior dividends, followed by changes in current

after-tax earnings and, to a lesser extent, business risk. Two points to note: publicly traded companies pay dividends in a consistent manner, whereas market dividend policy is elucidated by information asymmetry, agency, and signaling theories, respectively. Theories of agency cost, signaling, and information asymmetry all contribute to the explanation of the third dividend payment in this market.

Kiguhi (2020) looked into the link between firm-specific factors and dividend payout for companies that were listed on NSE. The target population included all of the companies that are publicly traded on the Nairobi Securities Exchange. There were secondary data sources consulted. When collecting data for multiple units of analysis over a period of time, panel data was used to ensure that all of the data was consistent. To determine the link between firm-specific factors and dividend pay-out, the researchers used inferential statistics such as correlation analysis and panel multiple linear regression equations, with the estimation technique being Ordinary Least Squares. Firm-specific are not having a statistically significant with dividend payout, and therefore cannot be used to accurately forecast dividend payout, according to the findings.

Buigut and Soi (2020) investigated on impact of firm characteristics on dividend policy in Kenyan companies that were listed on the NSE. In order to collect information on the target population of 43 banks, the CBK and the NSE will collaborate (NSE). During a ten-year period, each bank was examined once per year, resulting in 430 firm-year observations. A census approach was utilized to include commercial banks that were registered with the CBK as well as banks that were listed on the NSE. According to the results of the random model, profitability, ownership, leverage, and liquidity all had a statistically significant impact on dividend policies.

Yasin and Wepukhulu (2019) on capital structure and dividend pay-out decisions of Nairobi Securities Exchange-listed companies. The study discovered that there was no statistically significant relationship or association between profitability, leverage, growth, and dividend pay-out. The target population was determined by conducting a census of all 64 companies currently listed on the NSE. A document review guide was used to extract secondary data from audited financial statements, annual reports, and other firm publications, and the data was then analyzed. A number of descriptive and inferential statistics were generated as part of the statistical analysis. The results of the data analysis were recorded in tables, which were then analyzed further. The findings revealed a negative relationship between long-term debt and dividend payout decisions made by companies listed on the NSE. An inverse relationship exists between internal equity capital and dividend payout decisions, with a moderately positive correlation.

On the basis of their findings, Bulla, Namusonge and Kanali (2017) conducted an investigation into the key determining factor of dividend payout among NSE-listed corporations. In this study, using panel data from 40 firms listed in various sectors of the stock market over an eleven-year period, the researchers investigated the impact of tax earnings and prior dividends on dividend decisions at the Nairobi Securities Exchange (2000-2010). A multiple regression model is used to determine whether or not there is a statistically significant positive relationship between prior dividends and current earnings. The dividend model proposed by Fama and Babiak (1968) provided an excellent explanation for panel data collected during the period under consideration (78 percent). Because of this, when selecting stocks with a high dividend yield, equity investors should take the most recent dividend payment of the company into consideration.

Kosgei (2017) conducted research on the factors that impact dividend payout policies of companies that are listed on the NSE. The survey case study method was used to conduct the research for this study. When the study was conducted in June 2014, it received responses from 91 respondents who worked as managers, middle-level managers, or other employees at financial institutions that were listed on the NSE. The researchers used the purposive sampling method to sample branch managers and middle-level managers, resulting in a sample size of 91 respondents based on the Fisher formula, which was considered adequate. The information was gathered through the use of a structural questionnaire with a 5-point Likert scale. The findings of the study revealed a statistically substantial connection between investment decisions and dividend policies.

2.5 Conceptual Framework

A conceptual framework diagrammatically links independent and dependent study variables. The conceptual framework is crucial in research because it allows researchers to clearly establish the existing link between research variables. The independent variable for this study was liquidity and dependent variable was divided policy while the control variables were leverage, profitability and firm size. The measure of each variables as used in this study was indicated in the conceptual framework below.

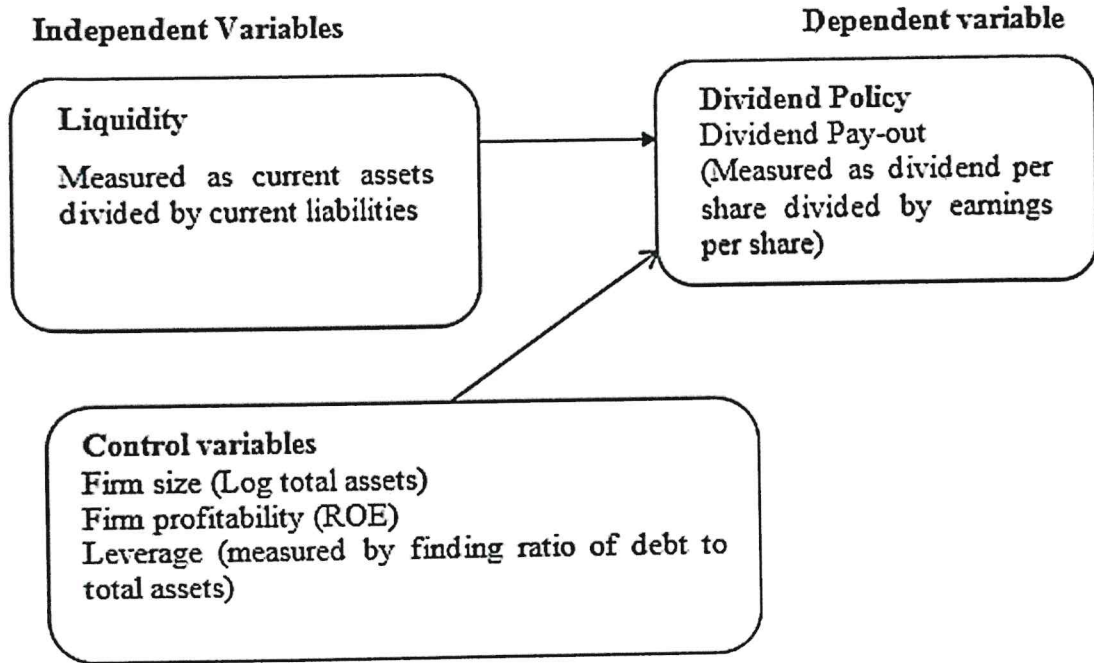


Figure 2.1: Conceptual Framework

Source: Author (2021)

2.6 Summary of Literature Review

In summary, this chapter began by conducting a review of the relevant literature on the subject matter before moving on. The theories of dividend irrelevance, transaction costs, and tax preference, as well as the theory of transaction costs, serve as the study's underlying framework.... The relationship between liquidity and dividend policy in corporations has been the subject of a large number of studies, which have been undertaken in this area. Due to the fact that these investigations were conducted from both an international and a local perspective, they produced a mixed result. Researchers Pattiruhu and Paais (2020) discovered that the size of a company had no positive or statistically significant impact on the dividend policy of the company.

Among the factors examined by Okoro, Ezeabasili, and Alajekwu (2018) are a company's market value, which has a statistically substantial positive effect on dividend pay-out; the profitability of a company, which has a positive but insignificant effect on dividend pay-out; the leverage of a company, which has a negative but insignificant effect on dividend pay-out; the size of a company, which record a negative but insignificant effect on dividend pay-out; According to Kiguhi (2020) firm-specific factors do not have a statistically significant relationship with dividend pay-out and, as a result, cannot be used to predict dividend pay-out in a meaningful way. Buigut and Soi (2020) demonstrated that firm profitability, ownership, leverage, and liquidity all had a significant impact on dividend policy decisions, and that these factors were all related to firm profitability. Remember that the goal of this study was to determine the impact of liquidity on the dividend policy of the Kenyan stock market, which should be noted. To determine whether or not the dividend policy of manufacturing companies that are publicly traded on the National Stock Exchange was influenced by liquidity (NSE).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is covered in this chapter. Section 3.2 explores the research design; Section 3.3 studies the population and sample; Section 3.4 reviews the data and data collection instruments, whereas the last section discusses the data analysis.

3.2 Research Design

The study took a descriptive approach in order to demonstrate the relationship between liquidity and dividend policy for manufacturing companies which are publicly traded on the National Stock Exchange. Descriptive design was carried out so as to be in a position to discuss the variables of interest in terms of their characteristics in a situation. The study adopted this design so as to have a better comprehension of the characteristics of liquidity and dividend policy in the listed manufacturing firms setting. It provided a structured way of collecting data, analysis of data and reporting of the results. This approach was preferred because it allows one to think systematically about the study thus enabled the examination of the effects of stock liquidity on dividend payout policy.

3.3 Population

Refers to a collection of things, events, or individuals that a researcher is interested in studying (Mugenda & Mugenda, 2003). There are 9 manufacturing companies that are all listed on the Nairobi Securities Exchange (NSE) that make up the group (2020). A census of 9 firms was employed because the population was relatively small.

3.4 Data Collection

Secondary data was extracted from the annual audited financial statements and reports of individual firms collected from the NSE. The income statement and statement of financial position sourced from the NSE provided data regarding the assets, debt, equity of a company at a given date and summary of revenues, over the period of time. The study purposed to find effect of liquidity on dividend policy of manufacturing firms listed at Nairobi Stock Exchange for the years 2016 to 2020.

3.5 Diagnostic Tests

Several diagnostic tests were carried out. A normal distribution was expected for regression models. The study used the Shapiro and Wilk (1965) test to assess for the existence of normality. This test was chosen due to its good characteristics. Value 'W' lied between 0 and 1 where a value of one signified normality while values closer to zero indicated rejection of normality. The presence of homoscedasticity indicates that the error terms recorded a constant variance for each observation (Berenson, Levine & Krehbiel, 2009). The Breush-Pagan/Cook-Wesberg was used to check for homoscedasticity. At 95%Confidence level, where the null hypothesis has a constant variance, then values of $p > 0.05$ would cause the null hypothesis not to be rejected.

When two independent variables are linearly connected, this is a common occurrence in time series data. Its existence causes the variance of parameter estimations to inflate, resulting in inaccurate magnitude and sign estimates for the coefficients and signs. This could lead to erroneous findings. Variance Inflation Factors (VIF) was applied in testing for multicollinearity and it showed whether the predictor variables have a significant correlation on each other.

Stationarity takes place whenever the mean and variance of a data series remain constant over time, and the covariance computed between two periods of time depends solely on lag or distance between two periods of time (Gujarati, 2003). The variables were tested for stationarity using the Augmented Dicker Fuller (ADF) test. Autocorrelation test was also carried out. It occurs where for successive time periods, there is a correlation of error terms of the regression variables. Breusch-Godfrey autocorrelations test was employed to detect serial correlations, where the p value greater than 0.05, suggested that the error terms were independent (Garson, 2012).

3.6 Data Analysis

Data was collected, sorted, and organized in a tabular format so that it can be analysed quickly. The data was analysed using descriptive and inferential statistics, respectively. It was necessary to use the SPSS program in order to analyse the descriptive statistics about variables, as well as the regression and correlation analyses of variables. Descriptive statistics like mode, median, std. deviation, and mean were computed in the study. Inferential statistics applied regression analysis to find relationships among the set of variables, that is, liquidity variable and dividend policy variable.

3.6.1 Analytical Model

This was the algebraic expression of the study. It was composed of the constant term, the coefficients and the error term. Its illustration was as below;

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

$$\text{Dividend Payout} = \alpha_{it} + \beta_1 \text{Liquidity} + \beta_2 \text{firm size} + \beta_3 \text{profitability} + \beta_4 \text{financial leverage} + \varepsilon_{it}$$

Where;

Y = Dividend policy (dividend per share divided by earnings per share)

X_1 = firm liquidity (current assets to current liabilities)

X_2 = firm size (measures by total net assets)

X_3 = profitability (Return on equity (net income/Equity))

X_4 = financial leverage (finding ratio of debt to total assets)

α = Constant

$\beta_1, \beta_2, \beta_3, \beta_4$ represent the regression coefficients

ε = Error term, which described the model's unexplained variations

3.6.2 Tests of Significance

The study carried out a statistical test referred to as significance testing. T-tests and Analysis of variance (ANOVA) tests were employed in the analyses. The research study further used the null hypothesis, $H_0: X=0$, and $H_1: X \neq 0$ as the alternative hypothesis. The null hypothesis states that the predictor variable had no effect on the predicted variable.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND FINDINGS

4.1 Introduction

This chapter looks into NSE data to see how liquidity affects the dividend policy of listed manufacturing firms at the NSE. Correlation and regression data were represented in tables utilizing descriptive statistics, as indicated in the segments below.

4.2 Descriptive Analysis

This study presents average, minimum, maximum and standard variables. Table 4.1 displays the variable statistics. For all the 9 firms whose data was gathered, SPSS was utilized in the analysis from 2016 to 2020. The figures are listed below.

Table 4.1: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Dividend policy	44	.0000	2.6000	.475182	.4927700
Liquidity	44	.0290	9.4280	2.070	1.8993
Firm Size	44	4.9	7.9	6.580	.8307
Profitability	44	-1.2214	.3673	.026368	.2812690
Financial leverage	44	.0970	1.9142	.570	.3310
Valid N (listwise)	44				

Source: Research Findings (2021)

4.3 Diagnostic Test

On the data gathered, diagnostic tests were run. The research utilized a 95% confidence interval or a 5% significance threshold to obtain variable information. Diagnostic tests were helpful in determining if the data was false or true. As a result, the closer the confidence interval is to 100 percent, the more correct the data utilized is assumed to be. The tests performed in this example were normality, multicollinearity, heteroskedasticity, as well as autocorrelation.

4.3.1 Normality Test

This study included the Shapiro-Wilk tests. This criteria stated that data was considered normal if the probability was higher than 0.05.

Table 4.2: Normality Test

	Statistic	Df	Sig.
DPR	.869	44	.853
Liquidity	.918	44	.822
Firm size	.881	44	.723
Profitability	.874	44	.812
Leverage	.882	44	.724

a. Lilliefors Significance Correction

Source: Research Findings (2021)

Since the p values are above 0.05, the aforementioned findings indicate that the data was regularly distributed. As a result, the normal distribution null hypothesis was accepted, indicating that the researcher fails to reject the null hypotheses.

4.3.2 Multicollinearity Test

Multicollinearity exists when a perfect or near perfect linear relation exist between a number of independent variables. Variance Inflation Factors (VIF) as well as tolerance levels were utilized.

Table 4.3: Multicollinearity Test

Variable	VIF	1/VIF
Liquidity	2.435	0.411
Firm size	2.866	0.349
Profitability	2.111	0.474
Leverage	3.024	0.331

Source: Research Findings (2021)

In statistics, the general principle is that the VIF values ought to be more than 1 and less than 10. According to this study findings, the VIF values for all the independent variables applied

are greater than 1 and less than 10. This suggests that the independent variables applied in the study do not have multicollinearity.

4.3.3 Heteroskedasticity Test

The error process in cross-sectional units may be homoscedastic, yet vary across units called groupwise Heteroskedasticity. Breuch Pagan is calculated for each group using the hetttest program. Heteroskedasticity is a term used to describe the heteroskedasticity of residuals. According to the null hypothesis; $\sigma^2_i = \sigma^2$ for $i = 1 \dots N_g$, where N_g is the cross-sectional units.

Table 4.4: Heteroskedasticity Test

Modified Wald test for group wise heteroskedasticity	
in regression model	
H0: $\sigma(i)^2 = \sigma^2$ for all i	
chi2 (44) =	372.48
Prob>chi2 =	0.4427

Source: Research Findings (2021)

The null hypothesis of Homoskedastic error terms is not rejected, according to the results in Table 4.4, which are supported by a 0.4427 p-value

4.3.4 Autocorrelation Test

The Breusch-Godfrey autocorrelations test was employed to detect serial correlations in a model's idiosyncratic term since typical serial correlation biases make the results more efficient.

Table 4.9: Analysis of Variance

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	65.521	4	16.380	7.131	.000 ^b
	Residual	89.591	39	2.297		
	Total	155.112	43			

a. Dependent Variable: Dividend policy
b. Predictors: (Constant), Leverage, Profitability, Liquidity, Firm size

Source: Research Findings (2021)

The significance level is set at 0.000, which is below $p=0.05$. This means that the model was satisfactory to assess the liquidity, profitability, firm size and leverage of NSE-listed businesses.

The significance of the link between responder and predictor factors was shown by the p-value of the sig. column. The confidence interval of 95% indicates a p-value of below 0.05. As a consequence, a p-value above 0.05 indicates that the predictor and response variable are unrelated. The results are listed below.

Table 4.10: Model Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.101	.069		3.081	.004
	Liquidity	.096	.041	.166	2.309	.022
	Firm size	.003	.004	.036	.598	.552
	Profitability	.133	.008	.239	3.996	.000
	Leverage	-.259	.029	-.527	-8.780	.000

a. Dependent Variable: Dividend policy

Source: Research Findings (2020)

All other factors, except for firm size, have generated significant findings (high t-value, $p < 0.05$). Because a p value above 0.05 is displayed, firm size generated a positive but not significant result.

The following equation was generated:

$$Y = 0.101 + 0.096X_1 + 0.133X_2 - 0.2589X_3$$

Where,

Y = Dividend policy

X₁ = Liquidity

X₂ = Profitability

X₃ = Leverage

The constant = 0.101 in the model indicates that dividend policy would be 0.101 if the variables (Liquidity, profitability, company size, as well as leverage) were all zero. While firm size was insignificant, a unit rise in liquidity resulted in a 0.096 rise in dividend policy, whereas a unit rise in profitability resulted in 0.133 increases in dividend policy. A unit rise in leverage would yield a 0.259 decline in DPR.

4.6 Discussion of Research Findings

The research examined how liquidity impacts NSE firms' dividend policy. The independent variable was the liquidity operationalized as the ratio of current assets to current liabilities. The control variables were profitability measured by ROE, firm size as natural log of total assets and leverage measured by total debt to the overall assets. DPR was utilized in assessing dividend policy which was the response variable.

The correlation coefficient of Pearson demonstrated firm size has a positive but not significant association with DPR. Liquidity and profitability showed positive and significant relationship with company dividend policy according to the findings. Financial leverage on contrary showed negative statistical significant relationship with DPR.

The result shows that 42.2% of changes in the response variable according to R^2 , which implies other factors other than the model explain 57.8% of dividend policy changes. The predictor variables of liquidity, profitability, size of a business and leverage explained 42.2% of changes in DPR. With an F-value of 7.131, the model was significant at 95% confidence interval. This shows that the connections between the variables were represented by a sufficient model.

The findings are consistent with Buigut and Soi (2020) who investigated impact of firm characteristics on dividend policy in Kenyan companies that were listed on the NSE. In order to collect information on the target population of 43 banks, the CBK and the NSE will collaborate (NSE). During a ten-year period, each bank was examined once per year, resulting in 430 firm-year observations. A census was utilized to incorporate commercial banks that were registered with the CBK as well as banks that were listed on the NSE. According to the results of the random model, profitability, ownership, leverage, and liquidity all had a statistically significant impact on dividend policies.

The study also concurs with Yasin and Wepukhulu (2019) pursued capital structure and dividend pay-out decisions of Nairobi Securities Exchange-listed companies. The study discovered that there was no statistically significant relationship or association between profitability, leverage, growth, and dividend pay-out. The target population was determined by conducting a census of all 64 companies currently listed on the NSE. A document review guide was used to extract secondary data from audited financial statements, annual reports, and other firm publications, and the data was then analyzed. A number of descriptive and inferential statistics were generated as part of the statistical analysis. The results of the data analysis were recorded in tables, which were then analyzed further. The results indicated a negative link between long-term debt and dividend pay-out decisions made by companies listed on the NSE.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The results, conclusions, as well as limitations discovered during the research are summarized in this chapter. It also makes policy recommendations that will help policymakers raise the expectations of publicly listed companies in attempt to attain better results. The findings of the research too include future research suggestions.

5.2 Summary of Findings

The research's goal was to see how manufacturing firms listed at the NSE's dividend policy is affected by liquidity. Liquidity, profitability, business size, and leverage were among the variables studied. This was accomplished using a descriptive cross-section design. SPSS has been used to analyse secondary CMA data. Annual data for 9 manufacturing corporations has been obtained during a 5-year period from their annual reports.

The correlation coefficient of Pearson showed that liquidity has a significant positive association with dividend policy measured by DPR. Listed manufacturing businesses' dividend policy demonstrated a positive though not substantial connection to firm size. The research too depicted that the correlation between profitability with the DPR of NSE manufacturing companies has been positive and substantial. The correlation between leverage and DPR was found to be negative and substantial.

As depicted by 0.422 R square, indicating that changes in liquidity, profitability, business size, and leverage account for 42.2% of the variance in NSE listed enterprises dividend policy. 52.8% of dividend policy variation is attributable to variables outside the model. The results showed that the predictor parameters selected were significantly linked with the business

This study concurs with Okoro, Ezeabasili and Alajekwu (2018) who conducted an investigation into the factors that influence dividend payout in Nigerian consumer goods companies. On the Nigerian Stock Exchange, there are 28 consumer goods companies that are publicly traded. Over a ten-year period from 2006 to 2015, nine consumer goods companies were selected for inclusion in the study through the use of purposive sampling. Data from secondary sources, such as company websites and audited financial statements, was gathered for the purposes of this study. Specifically, the findings show that a company's market value has a statistically substantial positive impact on dividend pay-out; profitability has a statistically significant positive effect on dividend pay-out; leverage has a statistically significant negative effect on dividend pay-out; company size recorded a statistically significant negative impact on dividend pay-out; and the dividend paid the previous year bear a statistically substantial and positive effect on dividend pay-out.

This study also agrees with Epaphra and Nyantori (2018) on dividend policy in the country. Among the dividend policy measures studied between 2008 and 2016, the dividend yield and dividend payout are two that stand out. It appears that dividend policy determinants differ depending on the dividend policy proxies used, profitability and investment opportunities available. On the one hand, dividend yield is influenced by several factors, including market-to-book value ratio, ROE, retained earnings-to-total assets ratio, size of company and business risk. Conversely, business risk, liquidity and the retained earnings to total assets ratio all appear to have an impact on dividend payouts, according to the data. While on the other hand, when liquidity is excluded from regression models, the return on asset ratio has an impact on both dividend yield and payout.

5.4 Recommendations for Policy and Practice

The research results revealed that liquidity has a positive impact on dividend policy. Policy reforms include: manufacturing companies listed in NSE should maintain adequate levels of liquidity as this enhances their dividend policy. This will also assist in achieving the objective of enhancing shareholder value. Although liquidity comes with an opportunity cost of missed investment opportunities, it is beneficial to a firm as they are able to pay dividends when need be.

Dividend policy and profitability were found to have a positive relationship in the research. The suggestion is that a detailed examination of the profitability condition of publicly traded manufacturing firms be performed to guarantee the firms are functioning at satisfactory profitability levels, consequently boosting dividend policy. The rationale for this is that profitability is extremely vital since it has an impact on a company bottom-line.

The study results revealed that leverage has a negative impact on dividend policy. Policy reforms include: companies listed in NSE shall assess fiscal advantages and bankruptcy costs connected with loan funding. Levels of debt should be kept at appropriate levels because a high debt level has been shown to decrease dividend policy. This will assist in achieving the objective of enhancing shareholder value.

5.5 Limitations of the Study

The study looked at some of the elements thought to affect the NSE-listed manufacturing companies' dividend policy. The research focused on four explanatory variables in particular. Nevertheless, additional factors, some of which are internal, like the firm's age and corporate governance, though others which lack management's regulation, like rate of exchange,

Policymakers may use a tool that evaluates the influence of different factors on dividend policy to help them make decisions.

The research was restricted to NSE-listed manufacturing businesses. Other corporations operating in Kenya should be investigated further, according to the study's recommendations. Future research should look into how liquidity affects characteristics other than dividend policy, such as business value, operational efficiency, and performance, to name a few.

The focus of this research was drawn to the last five years. Future studies may span a lengthy period of time, such as thirty or twenty years, and may have a major effect on this study by confirming or refuting its findings. A longer research has the benefit of allowing the researcher to catch the effects of business cycles like booms as well as recessions.

Lastly, this research relied on model of multiple linear regression, that has its own set of drawbacks, including the possibility of erroneous and misleading conclusions due to changes in variable dividend policy. To explore the many connections to dividend policy, future research should use alternative models.

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Appendix I: Research Data

COMPAN Y	Year	Firm size	Financial leverage	Dividend policy	Liquidity	Profitability
BAT	2020	7.341	0.5571	0.8568	1.0870	0.1781
	2019	7.263	0.4924	0.7794	1.5911	0.2227
	2018	7.251	0.8749	1.1691	1.3180	0.1878
	2017	7.267	0.8488	0.8541	1.4132	0.2622
	2016	7.271	0.4892	0.9988	1.4512	0.2664
Carbacid	2020	6.545	0.1072	0.5983	5.6940	0.0777
	2019	6.528	0.0970	0.5072	9.4280	0.0866
	2018	6.519	0.1158	0.4762	7.0132	0.1002
	2017	6.489	0.1323	0.4516	7.0885	0.1219
	2016	6.473	0.1656	0.3627	4.5106	0.1325
Eveready	2020	5.395	0.5574	0.0000	1.5019	-1.2214
	2019	5.759	0.2372	0.7874	2.5325	-0.1947
	2018	5.888	0.2890	0.0000	2.6948	0.3531
	2017	6.035	0.5506	0.0000	0.4538	-0.1809
	2016	6.179	0.4666	0.0000	0.8578	0.3070
Unga Group	2020	7.027	0.4312	0.1477	1.9559	0.0512
	2019	6.997	0.4353	0.6623	2.1418	0.0789
	2018	6.976	0.5064	0.2315	1.6579	-0.0007
	2017	6.922	0.4194	0.1898	2.2986	0.0609
	2016	6.938	0.3824	0.2055	2.3685	0.0717
BOC Kenya	2020	6.299	0.2776	1.5476	1.9772	0.0108
	2019	6.331	0.2908	2.5743	1.8821	0.0151
	2018	6.348	0.2770	0.8037	1.9539	0.0104
	2017	6.347	0.2366	0.6833	2.2831	0.0346
	2016	6.366	0.2615	0.4422	2.0635	0.0295

COMPAN Y	Year	Firm size	Financial leverage	Dividend policy	Liquidity	Profitability
EABL	2020	7.940	1	0.7650	0.8795	0.1323
	2019	7.853	0.8365	0.5664	0.8349	0.0897
	2018	7.824	0.8202	0.4508	1.0069	0.1159
	2017	7.791	0.8878	0.6625	0.7707	0.1642
	2016	7.826	0.7937	0.6691	1.0229	0.1190
Mumias	2019	7.197	1.9142	0.0600	0.0290	-0.9623
	2018	7.382	0.9686	0.0000	0.1093	-0.2824
	2017	7.428	0.7179	0.0000	0.1807	0.0555
	2016	7.310	0.7097	0.0600	0.1879	-0.2273
FTG Holdings	2020	6.358	0.5366	0.3888	1.2125	0.0197
	2019	6.265	0.5580	0.4301	1.1436	0.0184
	2018	6.226	0.5648	0.4566	1.2907	0.0237
	2017	6.182	0.5272	0.4000	1.5305	0.0953
	2016	6.123	0.5613	0.3810	1.6410	0.1348
Kenya Orchards	2020	5.134	0.7601	0.0100	1.9784	0.0620
	2019	5.059	0.7884	0.0000	2.1138	0.0776
	2018	5.035	0.8577	0.0000	1.7132	0.0530
	2017	4.951	0.8909	0.0100	2.0214	0.0422
	2016	4.896	0.9235	0.0300	2.0757	0.3673

Appendix II: Turnitin Report

EFFECT OF LIQUIDITY ON DIVIDEND POLICY OF MANUFACTURING FIRMS LISTED AT NAIROBI SECURITIES EXCHANGE IN KENYA

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