

Abstract

Dividend is paid out of profits thus it is used as a yard stick to show future prospects of a firm, attract investors and to monitor underinvestment by managers. The objective of the study was to establish the effect of financial leverage and revenue growth on dividend policy of firms listed at Nairobi Securities Exchange between 2008 to 2012.

The study considered forty firms, out of a population of sixty firms, that had been listed consistently from 2008 to 2012. Secondary data was collected from group annual and financial reports of individual companies for five years thus complete business cycle. Data of interest was extracted, coded and analyzed using SPSS Version 17.0. Multivariate regression model considered dividend payout as dependent variable while independent variables were financial leverage, revenue growth, return on equity, size of the firm, current earnings, corporate tax and liquidity.

From the findings, the study revealed that there exists negative association between financial leverage, revenue growth and dividend payout. Firms pay dividend as a sign of current and future prospects. They adopt the agency theory of dividend policy. Dividend payment is used to solve the agency problem of underinvestment, consumption of perks by managers and diversion of excess cash to unprofitable projects. The study supports previous research done in developing capital markets. The study recommends that firms should pay dividend to attract investors. Also, from dividend payout, firms are able to control consumption of perks and underinvestment by managers. Macro economic factors and forces of the market should be considered when declaring dividend in order to align firms' goals in terms of investment, growth and dividend.