

**CAPITAL STRUCTURE AND DIVIDEND PAYOUT RATIO OF
NON-FINANCIAL COMPANIES LISTED AT THE NAIROBI
SECURITIES EXCHANGE**

BY

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**A RESEARCH PROJECT SUBMITTED IN PARTIAL
FULLFILMENT OF THE REQUIREMENTS FOR THE AWARD OF
THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION
(FINANCE) DEPARTMENT OF FINANCE AND ACCOUNTING,
UNIVERSITY OF NAIROBI**

NOVEMBER 2018

DECLARATION

I declare that this is my original work and has not been presented for a degree in this or any other university. To the best of my knowledge and belief, the research project contains no material previously published or written by another person except where due reference is made.

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ACKNOWLEDGEMENT

I would like to express my gratitude to my supervisors; Dr. Joshua Wanjare and Mr. Joab Ooko for their profound influence in my work and for their patience, guidance, and keen interest in helping develop my ideas about revising and editing my work together with the constructive criticism they offered. Thank you for having always reviewed my work in time despite your tight schedule.

To all lecturers and teaching staff of University of Nairobi who mentored me during my MBA coursework, thank you. The lectures really enlightened me and your door was always open for consultation with valuable comments. Further, my appreciation goes to Dr. Nixon Omoro much insight about what was required of the course and his support.

Special thanks go to the entire University's non-teaching staff who were always cooperative when I needed their assistance; especially during my course work. I thank University of Nairobi for availing to me a chance to carry out my academic endeavors, more so for the offer to use the university library which enabled me to collect sufficient materials for my research. Similarly, much gratitude goes to my course mates in the university who shared with me the necessary academic materials which contributed greatly in making my studies a success.

Finally, my special thanks go to my staff mates at the Kisumu Water and Sewerage Company Limited for their corporation during my study.

DEDICATION

This work is dedicated to my children; Daisy, Mitchelle and Emmanuel and my loving wife Caroline for their moral support, patience and encouragement in every step that I make in my studies. I further dedicate this work to my mother Mary Apondi Ogunde and my late father Joseph Ogunde Owalo for their constant prayers and encouragement.

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LIST OF ABBREVIATIONS AND ACRONYMS

AIMS	Alternative Investment Segment
CS	Capital Structure
GSE	Ghana Stock Exchange
FIMS	Fixed Income Market Segment
IPO	Initial Public Offer
MIMS	Main Investment Market Segment
NSE	Nairobi Securities Exchange

ABSTRACT

This study investigates the effect of capital structure on dividend payout ratio among non-financial firms listed at the Nairobi Securities Exchange (NSE). In particular, the study sought to determine the effect of leverage, profitability and liquidity on dividend payout ratio. Modigliani and Miller's (1958) theory of dividend irrelevance, Pecking Order Theory (Myers, 1984), Trade Off Theory (Brealey and Myers, 2003), and Agency Theory (Jensen and Meckling, 1976) guided the study. The study was conducted based on a sample of 45 non financial firms listed on the Nairobi Securities Exchange during the period 2013-2017 using panel data estimation technique. Descriptive research design was used on secondary data from the audited financial reports of 45 non-financial firms listed at the NSE was employed by the study. The study conducted a census of all the non-financial firms listed at the NSE. Data collection sheets were used as tools to gather the data and prepare it for data analysis. The data analysis was performed by use of SPSS then presented using tables. From the data analysis, the coefficient of determination was 0.705. This implies that the predictor variables could explain 70.5% of the adopted study model. Profitability regression coefficient was +39.28. Liquidity had a negative coefficient of 1.650, while leverage also had a negative coefficient of 2.529. The p-values for leverage ($p=0.001$); profitability ($p=0.032$) and liquidity ($p=0.024$) which were <0.05 imply that the three variables were statistically significant at five percent significance level. The study concludes that dividend payout ratio decreases with unit increment in leverage and liquidity. However, with increase in profitability, there is increase in dividend payout ratio. The study therefore recommends adequate measures to be put into place to improve and grow the profitability of the firms. Profitability growth can be achieved through efficiency measurement of the non-financial firms. It is recommended that a study be done on the effect of capital structure on dividend yield among non-financial firms listed at the NSE. Similarly, a shorter time period should also be given consideration. A study is recommended on the effect of capital structure on dividend payout using a panel data for a three year period among non financial firms listed at the NSE.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Basic old school theories of leverage (CS) assert that the most favorable stage of CS is needed by a company to help reduce costs and also increase profits (Malik, 2011). Ultimately, this will affect the earnings and interest of shareholders (Khan, Sherwani, Afshan, Islam and Kabbir, 2016). Equity and debt forms the mixture of capital structure. Chen, Jung & Chen (2011) argue that equity and debt should be planned and budgeted for future operation since higher debts, for instance, will result into higher interest in the future. Conversely, issuing more equity increases the amount of outstanding shares, thus imposing pressure of paying higher dividend in the future. Consequently, an organization may experience shortage in cash flows for the maintenance of its growth.

There are two main sources from which firms can choose to finance their investment: sources from within or outside sources. Finance sources from within comprises of retained earnings, while the external sources comprise of debt or equity. According to Myers (1984), financing decision involves assessment of dividend option: the portion of retained income to be ploughed back into the company and the proportion for dividend payment. Capital structure option also involves the fraction of exterior finance for borrowing and the part of finance acquired in the form of equity (Lintner, 1956).

Capital structure has been explained through the lenses of various theories without focused consensus. As a result of Pecking order Theory, if a company has to use funds from outside, then the favorite format is to follow a definite arrangement for funding basis: debt, convertible securities, preferred stock, and common stock, (Miller, 1977). For

instance, companies will fund projects through borrowing rather than subjecting to equity when liquidity is not enough to finance capital expenditure. Similarly, the corporation's most favorable leverage will incorporate the trade-off amidst tax advantage of debt and a variety of leverage-related costs (Myers, 1984). Trade off theory holds that leverage predominantly shift in the direction of objective which mirror tax proportion, resources type, business risk, income and insolvency expenses. The question as to how capital structure affects dividend payout ratio seem not to have been sufficiently explained theoretically.

Most of the experimental readings which have been carried out focusing on the leverage and dividend disbursement proportion at the listed firms in Nairobi Securities Exchange have come up with different unconvincing conclusions to apply in corporate finance. This study is going to find further the effect of capital structure and dividend disbursement proportion to bridge the gap of study in the listed companies at Nairobi Securities Exchange. NSE (2017) report reveals that financing through retained earnings or ordinary share issue seems to have been used much. However, firms which have raised higher amounts in equity capital seem not to be paying higher dividend ratios as opposed to those that have raised low equity capital. This therefore begs the question as to how capital structure relate with dividend payout ratio.

1.1.1 Capital Structure

Leverage forms the amalgamation of both loans and stock utilize by companies to operate their ultimate and current activities (Khan et al, 2016). The financing needs of a firm can be fulfilled through debts or equity. The acquisition of both debt and equity helps the corporation to fund its assets as sited in the case of (Stewart, 2011). However, theories

upon which capital structure is anchored have not come to a consensus concerning best combination of the same. While dividend irrelevance theory (Modigliani and Miller, 1958) holds that debt provides firms' tax-advantage, trade-off theory (Myers, 1984) argues that the gains of levy safeguard are compensating by the company's expenses of economic suffering and agency charges.

Van Horne and Wachowicz (2008) acknowledged loans, favored stock and ordinary stock as part of leverage discussion. Companies utilize loans and ordinary stock as means of their leverage (Obuni, 2012). Chemutai, Ayuma and Kibet (2016) explain that the funding from bonds has got interest attached within the agreed time. Subscription of bond issues have led to succeeding income documented in the consequent economic time, depicting the connection amidst companies giving loans and bigger income (Thiong'o, 2012).

Equity financing comprise of retained profits, own savings, contribution from board members, contribution from partners and friends, deferred income and cash flows of the business (Njagi, Kimani, and Kariuki, 2017). Companies which utilize equity finance are capable to improve on its operations because they have straight have power over it given the fact that they are remaining plaintiffs or shareholders (Mirza and Javed, 2013). In addition, retained earnings also forms part of the capital structure. The retained cash is ploughed back into the firm for future investment in valuable development usually common in upcoming firms or disbursed to shareholders as it happens in stable profitable firms (Berk and DeMarzo, 2011). According to Pandey (2005, cited in Olang, Akenga and Mwangi, 2015) Cash flow is put as a percentage of present assets to present liabilities (present proportion) or proportion of present assets minus stock to present

liabilities (quick ratio), while dividend pay-out ratio (dividend per share/earnings per share). On the other hand, profitability of the firm is measured by Return on Equity (ROE). It however remains to be revealed how capital structure of a firm relates with dividend payout ratio, particularly among non-financial companies listed in the NSE.

1.1.2 Dividend Payout Ratio

A dividend is a pro rata allotment to shareholders that is confirmed by the company's board of directors (King'wara, 2015). Dividends, in most cases, cannot be paid out of capital. Lintner (1956) clarified that primary; companies set objective dividend disbursement proportion, by making a decision of which portion of income to be set aside dividends in the ultimate term. Secondly, they modify dividends to match ultimate-term and maintaining positive moves in income. Dividend payout therefore depends on the firm's earnings.

Modigliani and Miller (1961) have however argued that in a market with full information, dividend policy is irrelevant since it has no effect on the value of the company. Agency theory (Jensen and Meckling, 1976) argues that dividend payment is efficient administrative mechanism to monitor connection that exists between the management and the principal. Confusion based on theoretical underpinnings therefore continues to arise as we remain focusing on the dividend issue.

1.1.3 Capital Structure and Dividend Payout Ratio

Leverage and dividend disbursement proportion appears to be unclear at the listed companies especially non-financial entities at the Nairobi Securities Exchange. At some stage, earnings or profitability as well as liquidity of a firm which is thought to fund dividend payout has tended to be negatively affected by most aspects of capital structure.

Moghaddam, et al. (2015) argues that return on asset (ROA) has opposite connection with leverage (proportion of small loan to overall assets). Similarly, Mirza and Javed (2013) as well as Ahmed & Wang (2013) state that debt have negative relations with profit. On the other hand, Goyal (2013) argues that short term debt has positive impact on profitability. Whereas Alli, Khan and Ramirez (1993) established a optimistic connection amidst liquidity and dividend disbursement proportion, Gill, Biger together with Tibrewala (2010) established no important association amidst the variables. It gives an evidence of inconsistency in the study outcomes.

In Kenya, Nyandumo (2016) examined the effect of profitability on dividend guidelines of manufacturing firms registered in NSE and found that liquidity and firm size were not statistically significant. Olang, Akenga and Mwangi (2015) assessed the result of cash flow on dividend disbursement of companies registered at the NSE. The investigation exposed that earnings has a most important function in dividend disbursement for the reason that of the higher coefficient in comparison to liquidity and working capital and therefore the firms that recorded higher profits. Kisaka, Kitur, and Mbithi (2015) analyzed the connection amidst earnings and dividend disbursement of commercial banks in Kenya and established a firm optimistic relationship amidst income and dividend disbursement. Dividend is a sign of financial growth and its stable flow faces minimal confrontation when getting into the market (Nyandumo (2016). Thirumalaisamy (2013) asserts that cash disbursement to the shareholders by an enterprise in itself is a reflection of decreasing the degree of equity financing through interior sources thus leading to reduction in liquidity in the firm. The connection amidst leverage and dividend disbursement proportion therefore seems to be mixed.

1.1.4 Nairobi Securities Exchange

NSE (2017) reports that registered corporation at the Nairobi Securities Exchange (NSE) are sixty four. According to the report, firms are put into three categories of market segments. That is, Main Investment Market (MIM), Alternative Investment Market (AIM) and young companies and Fixed Income Market (FIM). The market segments are further classified into 10 (ten) divisions namely; telecommunication and technology, money-making and services, depository institutions, vehicle industry and trimmings, hedging firms, venture, processing and related, farming, building and allied, power and fuel (NSE, 2017).

The NSE (2017) reports that between years 2009 and 2017, additional capital raised increased from Kshs. 736 million in 2009 to over Kshs 1.5 trillion in 2017, with equity capital accounting for over Ksh. 760 billion as compared to Ksh.290 billion of debt. The equity was raised mainly through the Initial Public Offer (IPO) and rights issue while debt was raised through corporate bonds and commercial papers. Financing through retained earnings or ordinary share issue seem to have been used much. However, firms which have raised higher amounts in equity capital seem not to be paying higher dividend ratios as opposed to those that have raised low equity capital. This therefore begs the question as to how capital structure relate with dividend payout ratio.

1.2 Research Problem

Financing and investment decisions of a firm have remained a central concern in the design of dividend payout policy. Capital structure and dividend disbursement proportion at the corporations registered at Nairobi Securities Exchange has however remained a puzzle in the financial market. Theoretically, debts are supported as providing firm's tax-

advantage, while equity avail tax shield that offset firm's agency costs. Firms often decide on the proportion of income to disburse out as dividends to shareholders. However, irrelevance theory view dividend payout as having no effect on the firm's worth, while agency theory argues that it is an efficient administrative mechanism to monitor connections between the management and the principal.

At the Nairobi Securities Exchange (NSE), the 64 listed firms raised additional capital of between Kenya Shillings 736 million in 2009 to over 1.5 trillion in 2017, with equity capital accounting for over Kshs 760 billion. Records available at the NSE indicate that firms that have raised higher equity capital during 2013-2017 have not been paying higher dividend payout ratios as opposed to those that have raised low equity capital. Moreover, mixed results have emerged in research concerning capital structure and dividend payout ratio.

Hellström and Inagambaev (2012) found that dividend disbursement proportion of big corporations poses major connection to liquidity, firm expansion and uncertainty. Khan et al (2016) found non existence connection amidst loan/stock and return on assets. Hasan et al (2015) found a minus blow of dividend disbursement proportion on the following next year income of the company. Whereas Alli et al. (1993) established a optimistic connection amidst liquidity and dividend disbursement proportion, Gill et al (2010) found no significant relationship between the variables. Inconclusive results have emerged from these studies since each of them has divergent opinion over their findings. The investigation therefore tries to find out the answer of the following research problem: What is the effect of capital structure and dividend payout ratio at firms listed at the NSE?

1.3 Research Objectives

To establish the effect of the capital structure and dividend payout ratio at companies listed at the Nairobi securities exchange.

1.4 Value of the Study

Findings of the investigation will benefit practitioners, policy makers together with the academia. The investment managers, based on the understanding of how capital structure relate with dividend payout ratio, may adapt dividend ratios that aid maximization of growth. Study findings may also aid putting up of measures that ensure safety of shareholders' investments in terms of share prices both in the current and future financial period.

The study findings may also be of benefit to the business community at large given that it will provide sufficient information on appropriate financing options available to firms. On the other hand, information attributed to the study findings may be valuable to the government in aiding in setting up of guidelines for streamlining dividend payout that propels growth.

The study findings will also provide additional knowledge in the field of capital structure and dividend payout. Equally, this study may be instrumental in opening up new areas for further research in the subject of business financing.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The segment evaluates text from the globe, Africa, and Kenya on the study phenomenon. The segment as well gives the hypothetical frameworks that the lesson is embedded upon, as well as the conceptual outline.

2.2 Theoretical Literature Review

Learning will be guided by four hypotheses: Pecking Order as well as Trade-Off theories, which are leverage oriented. Modigliani-Miller Dividend Irrelevance as well as Agency theories which are dividend payout oriented.

2.2.1 Modigliani-Miller Dividend Irrelevance Theory

In 1961, Franco Modigliani and Merton Miller gave out the most powerful dividend assumption. It states that there are three prepositions that under perfect market in which information symmetry exist. The firm's worth isn't influenced by means of the arrangement of the capital structure except in other words on the firms' asset to generate revenue. It is self-determining of corporation's worth in ideal capital markets where information symmetry exists. Miller (1961, p.412) three approaches were used in this case: Perfect capital market, where all firms in the market can access the same information and therefore the share price of the security will not be affected in any way: that is, all firms have got the same information to allow them operate under the same state. Additionally, another approach was rational behavior, where investors favor optimal wealth in their investment than minimal gain. It also presumes that investors should be better off than worse off. Finally, perfect certainty whereby investors in the

market have equal level of information in relation to the ultimate return of all the securities in the market.

The assumptions upon which Modigliani and Miller's (1958) theory of dividend irrelevance are based have gone through criticisms as holding no reality but theoretical. Danso & Adomako (2014), for instance, assert that capital markets are prone to transaction and bankruptcy costs, and assuming the absence of the same is not realistic. The assumption that two varieties of claims exclusively being subjected by firms: equity in the midst of risk and debt lacking threat, and the fact that investors in the market have equal level of information in relation to the ultimate return of all the securities have been described by Sheikh & Wang (2010) as misleading. The theory is however included in the study because it shed light on the two main sources of capital structure, and the consequent question as to the need for dividend payment.

2.2.2 Pecking Order Theory

The Pecking Order Theory, founded by Myers in 1984, view corporations to be having favored chain of command for funding choices. Corporation will takes loan as an alternative of giving out ordinary stock when interior cash flow is not enough to fund capital spending. The uppermost favorite is to utilize interior funding prior to alternative to any form of outside finance. Interior finance invites no floatation charges and involves no extra exposure of economical information which may lead to a probable loss of competitive benefit. If the company has to utilize loans then favorite is to go after an arrangement of funding basis: loan, changeable securities, favorite stock, and ordinary stock (Miller, 1977).

This arrangement mirrors the inspiration of the economic administrator to keep hold of having power over of the company, decrease the agency charges of equity, and keep away from bad market response to declaration of a new equity issue. The quantity of loan will mirror the company's increasing want for outside finance. The theory has two assumptions focusing economical administrator (Jensen, 1986). The initial is the probability which a company's manager knows extra about the firm's present profitability and ultimate expansion prospect than exterior shareholder. Utilization of interior finance stops managers from making public exposure about the firm's venture opportunities and possible income to be received from spending in them. Next assumption is that manager has to perform in the most excellent for benefit of the firm's surviving stockholders. At times managers give up a optimistic venture if it requires giving out new share, because it gives a large amount of the investment's worth to fresh investors at the cost of the older investors (Fischer, Heinkel and Zechner, 2009). According to Mostafa and Boregowda (2014), managers may move investment opportunities to risky assets. The theory is nevertheless adopted because it provides preferential options for selecting mode of financing the firms' operations.

2.2.3 Trade off Theory

One of the major suppositions in the Modigliani and Miller (1958) is no existence of taxes. The trade-off theory is a continuous progress of the MM theorem which takes into reflection the effects of levy and insolvency expenses. As per view of Brealey and Myers (2003), economic administrators frequently believe that corporation's leverage choice as a trade-off connecting interest tax shields and the expenses of economic suffering.

Corporation amid safe, touchable property along with abundance of taxable profits to protect should have high target ratios (Shahar et al, 2015). On the other hand, unbeneficial corporation amid risky insubstantial property is pegged principally on equity financing. If there were no expenses of adjusting leverage, then every firm ought to forever be at its aim debt ratio (Brealey and Myers, 2003).

It understood each foundation of funds has different charge and gain and these are linked with the corporation's gains capability and its industry and bankruptcy danger (Awan & Amin, 2014). Consequently, corporation in the midst of additional tax benefit will give additional loan to finance investment processes and the charge of financial pain and profit from tax safeguard are equalized (Mostafa & Boregowda, 2014). Firms put an equilibrium point through the costs and benefits of borrowings (Adedeji, 1995). Due to differences in each company's characteristics, borrowing will not be the same from one firm to another.

This theory has however received a fair shot of criticism. According to Mostafa and Boregowda (2014) executive performing in investors' interest possibly will move venture to more dangerous property and the expenses are incurred by the debt holders. Moreover, too much debt shows the way to low investment difficulty or 'debt overhang' difficulty. It gives a reflection that that lots of high-quality venture may perhaps be approved because additional loan cannot be given at the correct time due to the obtainable loan (Shahar et al, 2015). This theory is used in the study because it highlights pertinent reasons that may guide managers to adopt particular financing options based on dynamics like taxation and other fiscal policies of an economy.

2.2.4 Agency Theory

Pioneered by Jensen and Meckling (1976), agency theory links the investors (principals) and the manager as an agent (management). The investors engage as well as hand over some power to the manager to capitalize on their wealth. Stocks and bonds represent claims of the company while shareholders and creditors are the principals. However, Jensen and Meckling never provided justification concerning the result of agency cost on dividend policy.

Easterbrook (1984) pronounces that two features influence the costs attached to agency in a firm that is monitoring and risk aversion. Monitoring cost is the obligation of the principal to make sure that the manager fulfils their mandate and maximize their wealth. Risk aversion is the state whereby the investors would rather go for low return with known risks rather than higher return with unknown risks.

Indifference to investors, managers generally has their wealth attached to the company. Consequently, if the firm is non-productive or even goes insolvent, the agents' individual wealth turn out to be greatly affected. The agent has to be more risk averse compared to the investors.

2.3 Empirical Literature Review

Having presented the theories upon which the study is anchored, this section empirically reviews relevant studies within themes of capital structure and dividend payout ratio. Empirical reviews fall in the sequence of study objectives; capital structure, profitability and liquidity.

2.3.1 Capital Structure and Dividend Payout Ratios

Leverage is the main liability category of a firm connected amid dissimilar stages of danger, profit, and corrective measures. However, Relationship amid debt, equity and dividend disbursement percentage has been portrayed amid contrasting outcomes. Hellstrom and Inagambaev (2012) made a research on the influence of the portion of net earnings that the directors recommend for distribution to the shareholders in proportion to their shareholdings on the features picked from six companies. The features involved in this exercise were; excess funds, firm expansion, debt and equity, gain, uncertainty and increase in coverage. Findings indicated that some of the features collected have influence on the cash disbursed to shareholders. Difference appeared between large and medium companies as outlined in the findings. It was further detected that there is a strong relationship to excess funds, firm expansion, debt and equity, gain, uncertainty and increase in coverage of large companies while the portion of net earnings that the directors recommend for distribution to the shareholders in proportion to their shareholdings of medium companies recoded important connection to excess funds, leverage, risk and size.

Another study that sought to establish the influence of leverage plus bonus procedure on the corporation economic execution in Pakistani firms was done by Khan et al (2016). It assessed the net income to the total asset ratios and total profit generated to total shareholders' investment is a measurement of performance. Outcome revealed no relationship completely in the variables measured. Similarly, Abdul (2012) investigated on leverage choices amidst the execution of manufacturing companies and sectors within Pakistan. Income to assets and income to equity ratios are indicators of performance. The

ratio of net income during the period to the total asset was measured and the findings brought out clearly that the two variables tested strongly moved in different directions with the company performance. It further revealed that return on equity had small negative correlation with leverage.

Abor (2008) sought to establish the precise features of debt and equity of Ghanaian corporations listed on Ghana Stock Exchange (GSE). Duration of six years was picked as from 1998 - 2003 for the study. In conclusion, sourcing for external funds is only acquired if extra finances are needed for investment. Chemutai et al (2016) observed the influence of company leverage on the stock price accomplishment on economical institutions (banks) quoted at the stock market (Nairobi Security Exchange) as from 2009 to 2015. The outcome revealed that there is an important connection amongst the four variables on stock price. Maina and Kadongo researched the influence on company leverage on accomplishment of economic quoted companies in the stock market in Kenya. It revealed that there was important negative movement and its debt to equity ratio of the companies quoted at the stock market. The result is similar to that of Mwangi et al (2014) who examined the connection amid two variables that is non-economic companies and leverage. Depressing but major connection was found amidst economic execution and leverage percentage through return on assets and return on equity.

2.3.2 Profitability and Dividend Payout Ratios

Corporation's gain is the status of yielding an economic income or proceeds to the firm. Corporation precedes acts as the best consistent indicator to give a positive reflection of its future ability to increase its position of income (McCabe, 2011). Disbursement of dividend payout out percentage by the corporation to its shareholders is fully pegged on

the level of its financial proceeds realized, although evidence supporting actual payment of such dividend is limited. Gill, Bigger and Tibrewala (2010) assessed factors of dividend disbursement percentage among 266 American service and manufacturing corporations. It was established that dividend disbursement proportion dependent of earnings edge, transaction increase, leverage proportion, and levy. Corporations within the Services industry, dividend disbursement proportion is dependent on earnings edge, transaction increase, and leverage proportion. For manufacturing firms, dividend disbursement proportion is dependent on earnings edge, duty, and market-to-book proportion.

Hasan, Ahmad, Rafiq together with Rehman (2015) investigated connection amidst dividend disbursement proportion and proceeds of the corporation. Two major segments in Pakistan were chosen: energy and textile. Duration of 12 years was picked as from 1996-2008. Corporation performance was valued by earning per share (EPS) and return on asset (ROA). The outcome showed that irrespective of the industry type; there is a minus shock of dividend disbursement proportion on the following year profit of the company. In the United Arab Emirates, Mehta (2012) investigated the factors of dividend disbursement among corporations in real estate, energy segment, construction segment, telecommunications division, health care and industrial division (except bank and investment concerns). The lesson analyzed a variety of factors of dividend guidelines: earnings, danger, enough cash flow, dimension of the corporation and debt to equity of the company. The lesson revealed earnings and dimension are the mainly significant contemplation of dividend disbursement choice by UAE firms.

Kisaka, Kitur and Mbithi (2015) examined the connection amidst proceeds and dividend disbursement of commercial banks within Kenya. Investigation was pegged on the ten

commercial banks time and again registered at the NSE for duration of five years that is between 2008-2012. The outcome of the research proved the existence of strong positive connection amidst proceeds and dividend disbursement. In another research, Nyandumo (2016) on the other hand investigated the effect of profitability on dividend policy of manufacturing firms registered at NSE. Profitability and earnings were found to be statistically significant. Conversely liquidity and firm size were not statistically significant. The strongest predictor of dividend policy established was profitability. Migwi (2015) examined the connection amidst proceeds and dividend policy of 27 out of the 44 commercial banks in Kenya. All the dependent variables (profitability, liquidity, and inflation) had a important shock on the value of the banks. Dividend policy had a positive correlation with the profitability of the firm.

2.3.3 Liquidity and Dividend Payout Ratio

Enough cash flow of a corporation is its capability to settle its current responsibility by means of the corporation's properties that can be rapidly changed to liquid cash (Kumar and Sujit, 2018). According to Alli, Khan together with Ramirez (1993), dividend disbursement is pegged mostly on liquidity of the company that gives a reflection of the firm's ability to disburse dividends, than on present income, that are fewer greatly subjected to accounting procedures. On the other hand, Kim and Suh (2010) assert that the proportion of remaining proceeds which is not disbursed away as dividends, but firms retained for further nvestment in major corporation business or to pay debt, form the firm's liquidity. Mixed results have however emerged from studies relating liquidity with dividend payout.

Liquidity and dividend relate differently depending on various company based factors, particularly differences between large and medium companies. In Sweden, Hellström and Inagambaev (2012) tested the connection amidst the dividend disbursement proportion and six corporation chosen features: liquidity, enlargement, debt and equity, proceeds, threat and magnitude. Dividend disbursement proportion of large companies has an important connection liquidity, expansion and danger. Whereas dividend disbursement proportion of average firms contain an important connection to liquidity, debt and equity, threat and expansion.

Similarly, Kumar and Sujit (2018) examined the determinants of dividend trends of Indian's 31,234 companies from 15 dissimilar industry segments. It established that companies with advanced cash flow approach to disburse extra bonus. Moreover, dividend payout also affects retained earnings and possibly, the firm's growth. Thirumalaisamy (2013) considered the relations amidst undisbursed profit and company's expansion in India and exposed that corporate firm's expansion is considerably funded by undisbursed profit therefore there is no insolvency expenses or operation connected with undisbursed earnings which made it the major interior foundation of funds for corporations.

Murage (2016) assessed the connection between the numbers of companies chosen features and their pay-out ratios. It demonstrated that large companies encompass larger cash disbursement to their shareholders than minute firms. There existed movement in the opposite direction between the leverage and cash disbursed to the shareholders. Kimutai (2010) sought to investigate the consequence of cash flow on dividend disbursement by companies registered at the NSE. The outcome found that there is a

optimistic consequence of cash flow on dividend disbursement. It also found that liquidity had a unenthusiastic association with dividend disbursement. Olang, Akenga together with Mwangi (2015) assessed consequences of cash flow on dividend disbursement of 30 firms listed on NSE that time and again disbursed dividends as from 2008 to 2012. Cash flows and working capital were found to have no major effect on dividend payout.

2.4 Summary of the Literature Review and Gap

Studies on the influence of capital structure on dividend pay-out ratio have produced mixed results. Khan et al (2016) examined impact of leverage and shareholders cash disbursement guidelines on the corporation monetary accomplishment in Pakistani companies and found no connection amidst debt and equity and return on assets. Hasan et al (2015) found a minus crash of dividend disbursement proportion on subsequent year income of a company. Whereas Alli et al. (1993) found a positive connection amidst cash flow and dividend disbursement proportions, Gill et al (2010) establish no important association amidst the variables. This is evidence of inconsistency in study outcomes.

In Kenya, Nyandumo (2016) investigated the consequence of positive earnings on dividend procedure of manufacturing companies registered at NSE and found that liquidity and firm size were not statistically significant. Olang et al (2015) assessed result of liquidity on dividend disbursement of firms registered on the NSE. The research found that positive earnings act as a main role in dividend disbursement since of the advanced coefficient as compared to liquidity and working capital and as a result the firms that position advanced income. Kisaka et al (2015) examined the association amidst income and dividend disbursement of commercial banks in Kenya and found a strong optimistic

connection amidst income and dividend disbursement. These conflicting outcomes create a knowledge gap in determining the influence of capital structure on dividend pay-out ratio in the context of Kenya. This study seeks to fill this gap.

2.5 Conceptual Model

Conceptual framework symbolizes the researcher's amalgamation of literature on how to give details of occurrences. Matula, Kyalo, Mulwa and Gichuhi (2018) assert that the framework is a representation of the main variables and their presumed relationship with each other. Dependent variable is dividend payout ratio while the independent variable is capital structure. Figure 2.1 presents the conceptual Model of the study.

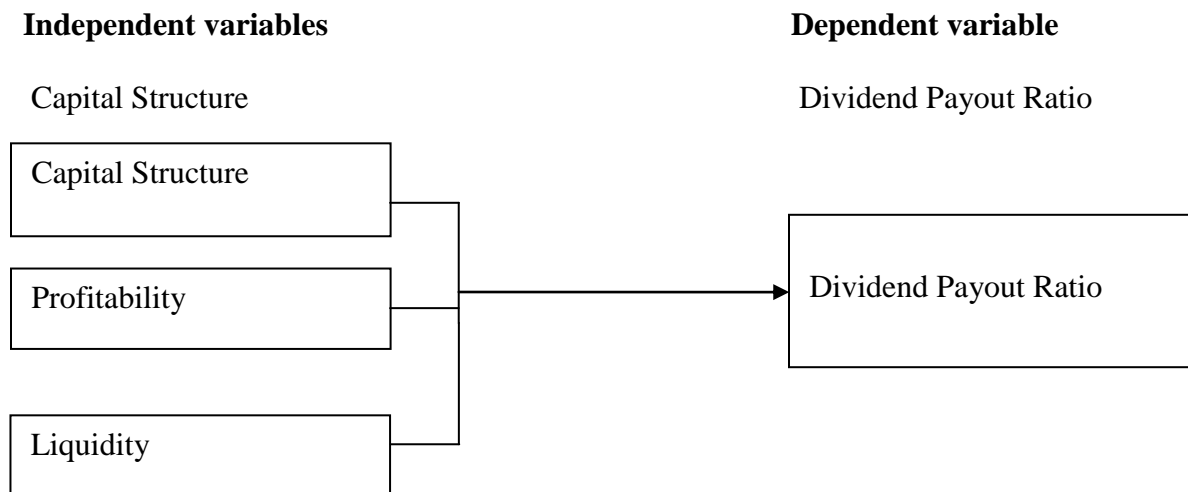


Figure 2.1: Conceptual Model of the Relationship between Capital Structure and Dividend Payout Ratio

Source: Adapted from Lintner (1956)

Figure 2.1 illustrates that the independent variable of the study is capital structure while the charge (dependent) variable is dividend payout ratio. Capital structure is denoted by

debt and equity; profitability, and liquidity. The study conceptualises that the way investment managers manage these elements of capital structure will affect the ratios in which dividends are paid to those who hold shares of the firm.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The section examines the key methodological selections which underlie the study. These include the investigation of viewpoint and argument on research design, data collection, data analysis, population, sample amount and sampling procedure, the research instruments, reliability and validity of instruments and data collection procedure.

3.2 Research Design

It will be performed through descriptive research designs. Descriptive research provides measures of event or activity Saunders Lewis and Thornhill (2007). It engages learning a circumstance or a dilemma to explain the connection between the variables (Hair, et al., 2003). This study will seek to explore the relationship between capital structure and dividend payout ratio (Creswell, 2009).

3.3 Population and Sampling

The target population of this study consists of all the 45 non-financial listed companies at the NSE as at 31st December 2017. Census method will be used to select all the non-financial firms listed at the NSE. According to Matula et al (2018), census method is appropriate in situations where the population in a study is small. The population will be composed of firms that have traded continuously since 1st January, 2013 to 31st December, 2017.

3.4 Data Collection

The study will use secondary data extracted from annual financial reports of the listed non-financial firms at the NSE Kenya for the period 2013 to 2017. The Financial reports will be obtained from the NSE, firm's publications and websites.

3.5 Reliability and Validity

A pre-test of the research instrument to establish their validity will be done. The instrument will be given to two experts to give their opinions on the relevance of the questions using a 5-point scale of relevant to not-relevant. The research instrument will be examined for its reliability by using Cronbach alpha coefficient test (Cronbach, 1951) so as to prove that the research instrument to be used to collect data from the respondents is appropriate and can yield similar results at all time.

3.6 Data Analysis

Data collected will be analyzed using multiple regression and correlation analysis by means of Scientific Package for Social Sciences (SPSS). The significance of each independent variable will be tested at a confidence level of 95%. In this study, dependent variable is dividend payout ratio and independent variables are capital structure, profitability, and liquidity. The variables involved will be calculated as follows;

To find out the connection between capital structure and dividend payout ratio of non-financial quoted firms at the NSE, regression analysis will be applied as stated below:

$$Y = \alpha + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + e \dots\dots\dots \text{(Source: Adopted from Hair, Babin, Money \& Samouel (2003).)}$$

Where:

Y = is dividend payout ratio (to be calculated by dividing dividends paid by the earnings for the year on a per share basis)

α is constant dividend payout ratio

β_1, β_2 , and β_3 are coefficients of predictors

x_1 = is capital structure (measured by Debt and Equity ratio)

x_2 = is profitability (measured by earnings and size)

x_3 = is liquidity (measured by cash flow and retained earnings)

e = is error margin.

CHAPTER FOUR: DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

Chapter four makes an analytical presentation and interpretation of data collected to achieve the research objective. The study had targeted all the listed non-financial firms for the period 2013-2017. However, sufficient relevant data for some of these firms were not available within the period and, therefore, could not be included for the analyses of the study phenomena. Thus, the final analysis used 39 firms out of 45. This represents 87% of the listed non-financial companies in Kenya. The chapter first presents the descriptive analysis results followed by the regression and correlation analyses results. Finally, a discussion of findings is presented.

4.2 Descriptive Statistics

Descriptive statistics used in the study comprised of mean, maximum, minimum, standard error of estimate, variance, skewness and kurtosis. Mean is a measure of central tendency used to describe the most typical value in a set of values. The standard error is a statistical term that measures the accuracy within a set of values. Skewness is a measure of symmetry, or more precisely, the lack of symmetry. A distribution, or data set, is symmetric if it looks the same to the left and right of the center point. Kurtosis is a measure of whether the data are peaked or flat relative to a normal distribution. Table 4.1 presents the results of descriptive statistics.

Table 4.1 Summary of Descriptive Analysis

Variable	DPR	Debt/Equity	Profitability	Liquidity
Mean	0.15	0.17	2.871	0.831
Maximum	0.43	0.476	22.37	2.41
Minimum	0.11	0.1	0.012	0.32
Std Deviation	0.12	0.168	3.4257	0.4931
Variance	0.0142	10.425	11.73679	0.24331
Skewness	0.451	0.782	0.58	0.649
Kurtosis	2.152	2.181	2.729	3.321
Observations	39	39	39	39

Source: Field Data (2018)

The results showed that dividend payout had a mean of 0.15 with a minimum of 0.11, a maximum of 0.43, variance of 0.0142, skewness of 0.451, and kurtosis of +2.152. On the other hand, debt/equity (leverage) had a mean of 0.17, minimum of 0.01, maximum of 0.476, standard deviation of 0.168; variance of 10.425; skewness of 0.782 and kurtosis of +2.181. Profitability had a mean of 2.871 with a maximum of 22.37 and a minimum of 0.012; standard deviation of 3.4257; variance of 11.7368; skewness of 0.58; and kurtosis of +2.729.

Liquidity had a mean of 0.867, minimum of 0.32, maximum of 2.41, standard deviation of 0.4931, variance of 0.2433, skewness of 0.649, and kurtosis of +3.321. Analysis of skewness shows that all the variables are asymmetrical to the right around its mean. Additionally, profitability tends to be highly peaked compared to leverage and liquidity.

4.3 Results of Correlation Analysis

According to Hair et al (2003), correlation range of the output is between -1 to 1, a positive value indicates that the variables are positively related while a negative value indicates that the variables are negatively related. Correlation coefficients are used to determine the association between the variables. In this study, correlation is used as a guideline for estimating the effect of leverage, profitability, and liquidity on the dividend payout ratio as shown in Table 4.2.

Table 4.2: Correlation Analysis Results

Variable	Dividend Payout Ratio (Y)	Debt/Equity (X ₁)	Profitability (X ₂)	Liquidity (X ₃)
Dividend Payout (X ₁)	1			
Debt/Equity (X ₂)	-0.452 (0.00)	1		
Profitability (X ₃)	0.747 (0.00)	0.352 (0.00)	1	
Liquidity (X ₄)	-0.626 (0.028)	0.327 (0.00)	0.628 (0.00)	1

Source: Field Data (2018)

From the correlation analysis in Table 4.2 above the following observations can be deduced: The correlation coefficient (r) of each variable is perfectly correlated with itself as indicated by the coefficient of 1. Profitability of the non-financial firms which was measured by return on equity obtained from the division of net profit to total equity is positively and strongly related to dividend policy as indicated by Pearson correlation coefficient of 0.747. The relationship is also significant at 5% significance value since the p value of 0.000 is less than 0.05. Liquidity position of the non-financial firms, which was measured by the current ratio obtained from the division of current assets to current

liabilities is negatively related to dividend payout ratio as shown by coefficient of correlation of -0.626 ($p < 0.00$) and is significant at 95% confidence level since its p value of 0.028 is lower than the allowable value of 0.05. However, liquidity is positively related with profitability with a coefficient of correlation of 0.628 implying higher profitability leads to dividend payout ratio. Capital structure, measured by debt to equity ratio, was also negatively related to dividend payout ratio with coefficient of correlation of -0.452 (0.00). However, the relationship is also significant at 95% confidence level since the p value is less than the allowable 0.05 i.e. According to the correlation results shown in the table, there is strong association between profitability and dividend payout ratio. A negative relationship is shown between the dividend payout ratio and liquidity as well as leverage (debt to equity ratio).

4.4 Regression Analysis

This study conducted regression analysis to establish the relationship between the independent and dependent variables. In interpreting the results of linear regression analysis, the R squared was used to check how well the model fitted the data. Therefore, it is important to know if the independent variables namely: leverage, profitability and liquidity relate to the dependent variable - dividend payout ratio. The coefficient of determination, R^2 was used in this study as a useful tool because it gives the proportion of the variance (fluctuation) of one variable that is predictable from the other variable. It is a measure which allows the determination of how certain factors can be used in making predictions from a certain model. The coefficient of determination is the ratio of the explained variation to the total variation in the dependent variable. The coefficient of determination is such that $0 < r^2 < 1$, and denotes the strength of the linear association

between the independent and dependent variables. Table 4.3 presents the regression model of the study.

Table 4.3: Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.83968	0.70533	0.70433	4.3508

a. Predictors: (Constant), Leverage, profitability, Liquidity

Source: Field Data (2018)

Table 4.3 illustrates that the coefficient of determination, R^2 is 0.7053 ($R^2 = 0.7053$; $P < 0.05$). This relationship is positive and significant. This finding implies that the coefficients of capital structure (leverage, profitability, and liquidity) explain 70.5% of variation in dividend payout ratio among the selected non-financial firms listed at the NSE. The relationship between the variables is relatively strong, represented by R^2 of 0.7053, with an adjusted R^2 of 0.704, shedding off only 0.001 units.

4.4.1 Analysis of Variance

The regression estimate also provided an ANOVA for the study model and the results are as shown in table 4.4. The ANOVA findings (P- value of 0.023) in Table 4.4 show that there is correlation between the predictor variables (Leverage, profitability and liquidity) and dependent variable (Dividend Payout Ratio). An F ratio is calculated which represents the variance between the groups, divided by the variance within the groups. A large F ratio indicates that there is more variability between the groups (caused by the independent variable) than there is within each group, referred to as the error term. The P

value is 0.023 which is less than 0.05 ($p < 0.05$) level of significance. Table 4.4 presents the ANOVA of the study.

Table 4.4: Analysis of Variance

	Model	Sum of Square	df	Mean Square	F	Sig
1	Regression	24.258	4	467.613	12.17	0.023
	Residual	7.021	35	243.676		
	Total	31.279	39			

Source: Field Data (2018)

4.4.2 Regression Coefficients

To establish the actual influence of internal control practices on financial expenditure, stepwise regression analysis was computed. Table 4.5 presents the regression analysis.

Table 4.5: Coefficients of Regression Equation

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	34.0945	5.116		6.6643	.012
	Leverage	-2.529	2.463	-0.452	-1.0267	.001
	Profitability	39.277	2.896	0.747	13.562	.032
	Liquidity	-1.650	1.420	-0.626	-1.1619	.024

Dependent Variable: Dividend Payout Ratio

Source: Field Data (2018)

These are the values for the regression equation for predicting the dependent variable from the independent variable. The regression model was as follows:

$$Y = \alpha + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + e$$

Where Y = the dividend payout ratio measured by DPS divided by EPS

α = constant which is the intercept of the regression equation

β_1 , β_2 , and β_3 = the gradient which represents the coefficients of the independent variables

X1=Leverage: this measured by considering the debt capital divided by equity capital.

X2=Profitability: this is measured by considering Return on Equity.

X3= Liquidity: is measured by considering current ratios

e = error term which reflects other factors that influence dividend payout ratio

The regression model becomes:

$$Y = 34.0945 - 2.529X_1 + 39.277X_2 - 1.650X_3$$

Where: Constant = 34.0945, shows that if leverage, profitability and liquidity are rated at zero, dividend pay-out ratio would be 34.0945. Similarly, X1= -2.529, shows that one unit increase in leverage results in 2.529 units decrease in dividend pay-out ratio. With regard to profitability, X2= 39.277, shows that one unit increase in profitability measured by ROE results in an increase of 39.277 in dividend payout ratio. Finally, X3=-1.650, shows that one unit increase in liquidity results into 1.650 decrease in dividend payout ratio.

4.5 Discussions of Findings

The results of the study indicate that the study variables have both positive and negative relationships. The study found that leverage and dividend pay-out ratio had a negative

relationship at a 5% level of significance. Similarly, liquidity and dividend payout had a negative relationship at five percent significance level. Profitability of the firms, however, had positive relationships with dividend payout ratio. Profitability ($r=0.747$, $p<0.05$) had the highest positive relationship with dividend payout ratio. It was also found that leverage ($r=-0.452$; $p<0.05$) had significant but negative relationships with dividend payout ratio. Equally, liquidity ($r= -1.650$; $p<0.05$) had a significant negative relationship with dividend payout ratio among non-financial firms listed at the NSE.

Findings in this study concur with the assertion of proponents of trade-off theory (Brealey and Myers, 2003) who argued that financial managers often think of the firm's debt-equity decision as a trade-off between interest tax shields and the costs of financial distress. They further reasoned that companies with safe, tangible assets and plenty of taxable income to shield ought to have high target ratios of dividend payouts. According to Lintner (1956), a firm's net earnings are an important factor influencing dividend payments. Among other issues, the pecking order theory states that if the costs of debt and equity are considered, low profit firms will not consider it ideal to pay dividends. Conversely, high profitable firms will have greater ability to pay dividends.

Several studies have also concurred with the finding that capital structure has a negative relationships with dividend payout ratio. Hellström and Inagambaev (2012) tested the relationship between the dividend payout ratio and six company selected factors and found that only dividend payout ratios of medium firms have a significant relationship to free cash flow, leverage, risk and size. Significant relation was also found between short term leverage, long term leverage, dividend policy among firms in Pakistan by Khan et al (2016). On his part, Murage (2016) found a negative significant between capital structure

and dividend payout ratio. Similarly, Sang et al (2015) found a strong inverse relationship between leverage and dividend payout ratio.

Firm profitability has also been showed to have significant relationships with dividend payout ratio ostensibly because firms with high profits tend to pay dividends based on their ability (Lintner, 1956). Garba (2014), in a study among manufacturing firms in Nigeria, found that dividend-per-share has a significant impact on the common stock returns of the sampled firms. In a study whose findings concur with the present study, Kisaka et al (2015) found that there is a strong positive relationship between profits and dividend payout.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the findings based on the variables under study. The main objective of the study was to establish the relationship between capital structure and dividend payout ratio of non-financial companies listed at the NSE. The chapter also presents the conclusions and the recommendations to the study.

5.2 Summary of Findings

Studies have shown that there exists a relationship between capital structure (leverage, profitability and liquidity) and dividend pay-out ratio. The studies undertaken in Kenya on the relationship between capital structure and dividends pay-out ratio have not attempted to establish why different non-financial sectors of companies listed at the NSE behave differently to dividends pay-out ratios. The purpose of this study is to establish the effects of capital structure on the dividend pay-out ratio of non-financial companies listed at the NSE. A descriptive research design was applied in this study. The population of interest in this study consisted of all the 45 non-financial firms listed at NSE and in operation for the period 2013 - 2017. In this study emphasis was given to secondary data which was obtained from the financial statements covering the years 2013-2017 for firms that announce dividends.

In order to test the relationship between the variables the inferential tests including the regression analysis was used to determine the effect of leverage on dividend pay-out ratio. The study found that the two variables contribute 62.6% of variation in dividend

payout ratio of dividend pay-out ratio i.e. unit increase in capital structure contributes to 0.626 unit change in dividend pay-out ratio.

The relationship between leverage and dividend payout ratio is significant and negative for non-financial companies listed at NSE. The results indicate that companies with higher leverage pay lower dividend payout ratio. The result complies with previous studies who also have found a negative relationship between leverage and the dividend payout ratio (Al- Kuwari, 2009). The negative relationship could be explained by the pecking order theory since it states that external financing is more costly compared to internal financing. The transaction costs for companies with high leverage are therefore higher and instead of paying dividends to shareholders, highly leverage companies choose to maintain their internal funds within the company (Al-Kuwari, 2009). This is explained by the high transaction costs and highly leveraged companies therefore have to rely on retained earnings in order to meet their obligations due to the expensive external financing. Since they keep a larger proportion of their earnings within the company the dividend payout ratio decreases.

The negative relationship between leverage and the dividend payout ratio can also be connected to the agency cost of debt. Since the objective of a company is to maximize the wealth of the shareholders, the management may undertake actions that favor shareholders to the expense of the bondholders. Most bondholders are aware of this behavior and they usually undertake certain actions in order to prevent the transfer of wealth from bondholders to shareholders. One of the most common actions taken by bondholders in order to prevent the transfer of wealth is to place restrictive covenants in the bond contract (Schroeck, 2002). The covenants may state that the company is not

allowed to pay a higher dividend payout ratio than the maximum level stated in the contract. As a company's leverage increases, the risk connected to the company increases and the bondholders may place more severe covenants regarding the dividend payout ratio. Consequently the dividend payout ratio decreases as a company's leverage increases.

A positive and significant relationship exists between profitability and the dividend payout ratio of the non-financial companies listed at NSE and the relationship is confirmed by previous studies who have found similar relationships (Al-Kuwari, 2009). The relationship can be explained by the agency theory and the shareholder- management conflict (Lloyd et.al, 1985). The agency problem arises between shareholders and managers because managers in large companies tend to own a small proportion of the company's stocks. Due to the low insider ownership, the managers' goals may be different from the goals of the shareholders. Since managers may be engaged in activities in order to maximize their personal wealth instead of maximizing the shareholders wealth.

The agency problem increases as the size increases since size and insider ownership usually is inversely related. Larger companies also have a larger and more widespread group of shareholders. Since the ownership of each shareholder becomes relatively small no single shareholders have incentives to supervise the managers. In order to decrease these kinds of agency costs larger companies have to pay higher dividend payout ratios compared to smaller companies. Another reason to why large companies pay higher dividends is that they have better access to external capital markets compared to smaller companies and they are able to offer higher collateral. These factors contribute to that larger companies are able to raise capital at a lower cost compared to smaller companies.

Due to the lower cost of raising capital, large companies have a greater ability to pay dividends even though its current earnings are low.

5.3 Conclusion of the Study

The main purpose of the study was to examine the relationship between the leverage and dividend pay-out ratio. The second purpose was to examine whether there are any differences between liquidity, profitability and dividend pay-out ratio. The research question was therefore: What is the effect of capital structure on dividend payout ratio of non-financial firms listed at the NSE?

In order to answer the research question, a regression analysis of 39 of the sampled 45 non-financial companies of firms listed at NSE was conducted. The study is based on a time period of 5 years and it includes the years between 2013 and 2017. The company selected factors included in the study are: leverage, profitability and liquidity. The result is based on the financial reports of the quoted non-financial companies. Some of the results comply with existing dividend theories and previous studies while other results are contrary to previous studies.

The leverage and dividend pay-out ratio among the firms have a significant relationship. A positive relationship exists between the dividend pay-out ratio and profitability while there exists a negative relationship between leverage and dividend pay-out ratio. There is also a negative relationship between liquidity and dividend payout ratio. The positive relationship between dividend pay-out ratio and profitability is in accordance with the Jensen's (1986) agency theory of free cash flow.

The dividend pay-out ratios for the listed non-financial companies have a significant relation to: leverage, profitability and liquidity. The firm profitability is the only factor that has a positive relationship to the dividend pay-out ratio and leverage as well as liquidity has a negative relationship to the dividend payout ratio. The negative relationship to the dividend pay-out ratio indicates listed the bondholders control the amount so that dividend payout is shelved for the purposes of investment.

Overall, the results indicate that some of the company selected factors have an impact on the dividend pay-out ratio. However, the impact of the company selected factors is different between the companies. In conclusion, it is obvious from the literature and from the results that leverage does influence the dividends pay-out ratio of companies listed at NSE. The all the predictor variables were shown to have a significant association with the dividend pay-out ratio.

5.4 Recommendations

The study has revealed which factors that have an impact on the dividend pay-out ratio on the companies that are listed at the NSE. The results have fulfilled the purpose of the study and revealed that capital structure do have a significant relationship to dividend pay-out ratio. Both current and potential investors are provided with information regarding which factors they should consider when predicting future dividends. Since dividend payout has been described as a puzzle, it was necessary to conduct a study regarding the determinants of the company's dividend pay-out ratio. Investors who are trying to predict future dividends would therefore gain some useful information regarding which company selected factors to look for when predicting future dividends. Managers may also use the study when determining the dividend pay-out ratios since they would be

given useful information regarding which factors they may consider when determining the dividend pay-outs.

The study has also contributed with theoretical knowledge since few studies had previously been conducted on the Kenyan market. This study has therefore filled the research gap that previously existed and other academics may use the study as a benchmark case. The study have also compared the results with the existing dividends theories and revealed which theories that are applicable on stocks listed at the NSE.

The study therefore recommends adequate measures to be put into place to improve and grow the profitability of the firms. Profitability growth can be achieved through efficiency measurement of the non-financial firms. A good way to do this is by calculating how efficiently the processing and producing services or products that suit the specific needs of the customers. This allows the management to compare themselves with others in the same sector and zero in on strong and weak performers in the product mix

5.5 Limitations of the Study

Even though the study applied a regression models and included a significant amount of stocks in the sample, the study contains some limitations. Three selected factors were included in the research but it is possible that other factors have a greater effect on the dividend pay-out ratio than the ones included in the research. But the company selected factors included in the research are the most commonly used factors in previous studies, and they should therefore be relevant for the study.

Another limitation is that the sample contains a larger proportion of large caps compared to the total population and the medium caps are somewhat underrepresented. But the

difference between the sample and the total population is small, and the difference should therefore have a negligible impact on the results. The study confirmed a relationship between capital structure and dividend payout ratio of non-financial firms listed at the NSE. This study therefore recommends diligence in the handling of dividend pay-out information among the sector players in a bid to ensure that there is inclusivity of the stock market stakeholders. Therefore, policies guiding the sharing of this information should be availed to enhance market control.

5.6 Suggestion for Further Study

The results and the analysis have revealed some additional questions which need to be answered in future studies. More company selected factors than the ones included in the research should have an impact on the dividend pay-out ratio. It would therefore be interesting to conduct a similar study with different company selected factors.

The dependent variable in the study was the dividend pay-out ratio. However, a suggestion for future studies is to replace the dividend pay-out ratio and instead use the dividend yield as the dependent variable. Most previous studies have also used the dividend pay-out ratio and it would therefore be interesting to see the impact of a number of company selected factors on the dividend yield.

A time period of five years has been used in the study and for future research we recommend to use a shorter time period. It would be interesting to see whether the results from this study are applicable if a study is conducted over a shorter period of time (three years) or during another time period different from a five - year period.

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APPENDICES

Appendix I: List of Quoted Companies

Non- Financial Listed Companies at the Nairobi Securities Exchange as at 31/12/2013

AGRICULTURAL

1. Eaagads Ltd
2. Kapchorua Tea Co. Ltd
3. Kakuzi
4. Limuru Tea Co. Ltd
5. Rea Vipingo Plantations Ltd
6. Sasini Ltd
7. Williamson Tea Kenya Ltd

COMMERCIAL AND SERVICES

8. Express Ltd
9. Kenya Airways Ltd
10. Nation Media Group
11. Standard Group Ltd
12. TPS Eastern Africa (Serena) Ltd
13. Scangroup Ltd
14. Uchumi Supermarket Ltd
15. Hutchings Biemer Ltd
16. Longhorn Kenya Ltd

TELECOMMUNICATION AND TECHNOLOGY

17. Safaricom Ltd

AUTOMOBILES AND ACCESSORIES

18. Car and General (K) Ltd

19. CMC Holdings Ltd

20. Sameer Africa Ltd

21. Marshalls (E.A.) Ltd

MANUFACTURING AND ALLIED

22. B.O.C Kenya Ltd

23. British American Tobacco Kenya Ltd

24. Carbacid Investments Ltd

25. East African Breweries Ltd

26. Mumias Sugar Co. Ltd

27. Unga Group Ltd

28. Eveready East Africa Ltd

29. Kenya Orchards Ltd

30. A.Baumann CO Ltd

CONSTRUCTION AND ALLIED

31. Athi River Mining

32. Bamburi Cement Ltd

33. Crown Berger Ltd

34. E.A.Cables Ltd

35. E.A.Portland Cement Ltd

ENERGY AND PETROLEUM

- 36. KenolKobil Ltd
- 37. Total Kenya Ltd
- 38. KenGen Ltd
- 39. Kenya Power & Lighting Co Ltd
- 40. Umeme Ltd

GROWTH ENTERPRISE MARKET SEGMENT

- 41. Home Afrika Ltd
- 42. Centium Investment Company
- 43. Olympia Capital Holding
- 44. Trans-Century Ltd
- 45. Nairobi Securities Exchange

Source: NSE (2017)

Appendix II: Data Capture Sheet

Company	DIVIDEND PAYOUT RATIO (DPS/EPS)		LEV (Debt/Equity)	LIQ (Current Ratio)	PRO (ROE)
Eaagads	-	-0.5	0.21	6.37	83515.00
Kapchorua	6.25	26.31	3.78	2.14	-
Kakuzi	-	2.33	0.28	4.24	-
Limuru	3.13	-1.96	0.3	12.58	97592.00
Rea Vipingo	0.4	4.72	0.01	3.39	914609.00
Sasini	0.13	-5.09	0.23	1.88	-
Williamson	6.25	52.22	3.86	3.28	-
Car and General	0.74	8.77	0.12	1.22	-
Sameer	0.4	1.09	0.24	2.77	867544.00
Marshalls	-	-2.53	0.33	0.94	59203.00
Scangroup Ltd	1.5	8.26	4.34	0.44	-
Hutchings Biemer Ltd	1.4	11.99	4.58	1.24	7738795.00
Express	-	0.85	0.39	0.62	-
Kenya Airways	0.63	0.64	7.5	0.7	-
Nation Media Group	8	11.72	0.01	2.29	1296132.00
Standard Group	0.25	1.72	0.94	1.11	682744.00
TPS	0.88	1.99	0.6	1.15	1762301.00
Athi River Mining	0.68	2.44	1.52	1.49	3213953.00
Bamburi	3.65	7.72	0.19	4.64	2461000.00
Crown	5.01	45.23	0.06	1.49	-
EA Cables	3	5.95	0.11	1.54	690937.00
EAPC	1.25	13.24	1.42	2.2	-
Total Kenya	1.55	2.58	0.04	1.29	1718385.00
KPLC	0.75	9.14	0.59	1.09	-
Pan Africa	2.85	8.37	0.15	1.4	1010909.00
Olympia	0.05	2.28	0.12	2.11	-
Centum	1.5	4.96	0.18	0.49	4945983.00
BOC	5.35	10.5	0.02	2.61	1103706.00
BAT	24.75	25.53	0.15	1.38	1709854.00
EABL	5	8.04	1.23	1.92	14282235.00
Mumias	0.75	0.72	0.26	1.56	5186568.00
Unga	0.38	2.62	0.05	1.5	-
Eveready	1.25	13.24	1.42	2.2	-
Orchards	1.55	2.58	0.04	1.29	1718385.00
Safaricom	0.75	9.14	0.59	1.09	-
Trans-Century Ltd	2.85	8.37	0.15	1.4	1010909.00
NS E	0.05	2.28	0.12	2.11	-
Home Afrika Ltd	1.5	4.96	0.18	0.49	4945983.00

