EFFECTS OF CAPITAL STRUCTURE ON DIVIDENDS PAY-OUT RATIO AMONGST NON-FINANCIAL FIRMS LISTED AT THE NAIROBI SECURITIES EXCHANGE, KENYA

BY

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DECLARATION

This is to declare that this research is my work that has not been presented to any other University for examination

Sign:..... Date:.....4/12/2020.....

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REG NO D63/11791/2018

The project has been presented for examination with my approval as a University of Nairobi Supervisor;

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To my mother Jane Muthoni Kiratu for her love, support, encouragement and wise words.

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LIST OF ACRONYMS & ABBREVIATIONS

AIM - Alternative Investment Market

CMA – Capital Market Authority

DSE - Dar Es Salaam Stock Market

FIM- Fixed Income Market

IPO- Initial Public Offers

MIM - Main Investment Market

NSE – Nairobi Stock Exchange

USE- Uganda Securities Exchange

ABSTRACT

The study analyzed the relevance of a firm's capital structure to the dividend payout ratio for publicly traded firms providing non-financial services and products on the NSE in Kenya. Capital structure decisions have a vital role to play in the success of companies, in both their activities and in dividend decisions. The report used a descriptive design and used data obtained from secondary tools in the research. The reference population was a total of 40 publicly-listed non-financial companies by the end of 2019. Data were obtained from secondary sources on the Nairobi Stock Exchange and annual reports were released on corporate websites for a period of 10 years from 2010 to 2019. The survey was conducted to assess whether the dividend payment ratio, as described in the dividend policy adopted by firms operating in the non-financial firms on the NSE list, is significantly affected by the structure of the capital of the company. The capital structure consisted of three factors, retained profits, long-term debt, and equity capital. Control variables were studied to ensure a minimal bias on the variables studied, including market capitalization, price-to-book ratio, share price, and asset return. The thesis used the STATA statistical program for data analysis, including a description of data, correlation, and regression analysis. The results of the analysis validated previous research on dividend policy and capital structure, which backed the claim that there was no substantial connection between the dividend payout ratio and the company's capital structure. The findings of the analysis are shown in the tables. The study suggests that companies implement sustainable dividend policies, balancing dividend payments with other competing interests that can take over the capital of firms

CHAPTER ONE

INTRODUCTION

1.1 Background

Capital Structure describes how corporations chose to fund their activities through a combination of debt and equity. In any sector, the management of the company decides on the capital mix to employ while considering factors such as capital costing, tax exposures, and the growth of the organization. The financial structure of a business reveals the game plan used to purchase capital from different areas (Mehar, 2018). There are various alternatives to corporate debt-to-equity ratios, some may prefer 100% debt and zero equity, some may prefer 100% equity and zero debt, or a combination of X percent debt and Y percent equity (Wepukhulu, 2019). The dividend payout ratio is also used as an indicator of dividend policy, with the most fundamental question being whether or not to pay dividends (Hasan, 2015). The firm's dividend policy by several factors within the firm, including but not limited to the firm's liquidity, investment opportunities, profitability, leverage, and firm size.

The theories put forth by scholars in the literature concerning capital structure include the trade-off theory , Modigliani and Miller theory, and the pecking order theory. Majluf and Meyers (1984) proposed a pecking theory of order based on the trade-off theory of knowledge asymmetry.22.64 percent and 76.2 percent, connoting that their capital structure differs considerably (Mule, 2015). Dividend payments by NSE-listed firms are highly affected by previous dividends, followed by adjustments in current post-tax earnings, and to a lesser extent, by market risk (Bulla, 2019).

1.1.1 Capital Structure

It represents a combination of long-term sources of financing for a company, such as long-term debt, debts, preferred equity capital, stock, and retained earnings (Rouf, 2015). The formulation of the capital structure is a crucial decision of the businesses to measure the overall capital cost that essentially determines the valuation of the firms on the market. The company's capital structure consist primarily of debt, common and preferred securities accorded to finance long-term projects (Rinku, 2017). The construction of the capital structure received a great deal of attention after Modigliani & Miller (1958) argued in their paper that the option between equity and debt had no significant impact on firm value (Modigliani, 1958).

Decisions on how a company structures its capital are a crucial factor for managers, as they affect the risks and returns of shareholders, thereby impacting the company's market share. The combination has cost consequences as a source for the funds.

To function at an optimum pace, companies use both stock amalgamation and loans, depending on their funding needs (Ogunde, 2018). Equity funding consists of own investments, retained earnings, donations from partners and associates, contributions from board members, deferred income, and cash flow from the company (Ogunde, 2018). Firms using their equity finance can boost their day-to-day activities, since they can do so, given that they are the owners of the company (Mirza, 2013).

From 1987, there has been a shift of environments in which firms operate, which includes increased flexibility to the financial managers. Research into a firm’s performance and the

dividend payout in companies listed on the NSE showed dividend payout was the most important factor among the factors affecting the performance of a firm (Wepukhulu, 2019).

1.1.2 Pay-Out Dividend Ratio

A Dividend policy is a choice made by the company to decide when dividends will be paid, the sum to be paid and the amount to be retained (Mui, 2016). In previous studies, however, researchers argue that dividend policy helps minimize agency problems in firms to date; scholars have not reached a consensus on the factor that affect dividend policy. When making a dividend strategy, managers need to weigh several variables and various investment opportunities that will potentially improve potential earnings (Mui, 2016).

Kenya Gazette Legal Notice No. 60 (2002) states that one of the conditions that a firm must pursue before being classified on the NSE is to have a well-defined potential dividend policy, which therefore makes the firm's dividend policy worthy of serious consideration by management (Wepukhulu, 2019). The dividend payout ratio reflects the amount of money that the company distributes to the shareholders, as opposed to the amount that it retains for reinvestment, debt reduction, or cash reserves. The dividend payout ratio is computed by dividing the dividends paid on an annual basis by the net profits. The report calculated the dividend payout by dividing the dividend paid by the company's net income.

1.1.3 Capital Structure and Dividend Pay-Out Ratio

A decision to pay dividends or not is an important decision for any firm; financial managers are responsible for choosing as to whether the firm can make all of its profits, maintain all of its profits, or issue a share of the profits while reinvesting the remaining part. Researchers claim that dividend payments should be measured by the effect they have on the shareholder's value. The company's stock market value is optimized by the use of an optimal dividend strategy, with businesses generating income paying cash dividends regularly (Murage, 2016). With dividend payout acting as a financial signal to the outside economy on the growth and stability of a firm, payment of dividends therefore plays a significant part in a firm's capital structure. Dividends are subjective to an extent of the cost of agency, which are linked to the rights of the shareholders (Gompers, 2003).

The dividend policy that a firm adopts is linked directly with theories put forth on capital structure, in that if the firm distributes dividends, it reduces the amount of funding of their equity capital using internal means, which may require that the firm raises external financing. Most firms pay out cash dividend, which then explains the shortage in cash that follows a dividend payout (Murage, 2016).

1.1.4 Non-Financial Firms Listed at the Nairobi Securities Exchange

The NSE operates in a coherent market for debt and equity financing., making it easier to raise cheaper capital, complementing the financial sector by providing short-term capital (Murage, 2016). The NSE is controlled by the Capital Market Authority to facilitate trade settlements in equities, derivatives, debts, and other financial instruments. NSE increases access to finance for

various users by offering tailored solutions, as well as providing investors with resourceful ways to liquidate their investment in shares, ensuring capital mobility (Murage, 2016).

The market is divided into three parts: the Alternative Investment Market (AIM), the Main Investment Market (MIM), and Fixed Income Market (FIM). The segments are further divided into divisions: Automobile, Agricultural and Accessories, Commercial and Services bulding and Allied, Banking, Insurance, Investment Services, Investment, Manufacturing & Allied, and Telecommunications & Technology. Dividend paymets by NSE-listed companies are heavily affected by previous dividends, accompanied by adjustments in actual post-tax earnings and to a lesser extent, market risks (Bulla, 2019). Studies conducted on dividends paid by NSE-listed companies have concluded that more than one-third of the listed companies have not distributed dividends between 2014 and 2018. Also, fifteen companies were seen to cut dividends per share (Omagwa, 2018). The capital structure of the NSE-listed non-financial companies consists of debt, retained earnings, and equities.

Capital raised by NSE firms is mainly realized through Initial Public Offers (IPO), rights issues, commercial papers, and corporate bonds. Firms use retained earnings and issued ordinary shares, however, those that have raised large amounts of equity capital tend to be paying low dividend ratios relative to firms that have raised smaller amounts of low equity capital (Ogunde, 2018). A study conducted by Mwangi (2014) on NSE-listed companies concludes that as an organization raises its financial leverage, the efficiency calculated by ROE decreases as compared to the expectations of the agency theorists.

1.2 Research Problem

There exists extensive studies into the dividend policies, as well as the capital structure and what influences them. Thakor, Milbourn, and Faulkender (2006) presented a theory attempting to integrate capital structure and dividend policy whereby both are argued to be driven by the same inherent factors and jointly determined as mechanisms to assign control over real project decisions (Faulkender, 2006). Dividend policy is argued to be associated with theories put forth on the capital structure because if a firm pays their stakeholders dividends, it consequently reduces the amount of funding for its equity capital and may therefore need external financing.

According to scholars in the pro-dividend school, investors will opt to receive an income from their shares investments in form of dividends. In their opinion, dividends are viewed to be a more certain source of income as opposed to income gained after sale of securities (Franc-Dahbrowska, 2009). On the other hand, an anti-dividend school of ideas assumes that issuing dividends causes the price of a stock to drop. In this case, it's argued that companies should therefore put a limit on their dividend payments and assign generated profit to equity capital, thereby acting in conformity to the hierarchy theory assumptions (Franc-Dahbrowska, 2009)

There is a significant connection between the capital structure and the pay-out dividend ratio, as appeared by the investigation of 16 organizations recorded in the NSE in the industrial and allied areas. The discoveries of the investigation indicated that there is a decent converse connection between the payout dividend ratio and the leverage ratio, yet there is a helpless connection between the dividend payout and the retained income. The investigation concluded that continued earning and the debt negatively affected the payout dividend ratio (Sang, 2015).

Global studies have been executed on the connection between the capital structure and the dividend in Pakistani firms; with Abbas, Haider, and Chishti (2016) examining the association between dividend policy and capital structure. They noted that in most of the research, the two parameters were studied in isolation, with studies like Chang and Rhee in 1990 combining the two, and observing a positive relationship between dividend policy and leverage (Abbas, 2016). Dutta et al (2009) studied 65 banking companies in the USA from 1994 to 1999, studying the relationship between the stake managers held in the company and dividend payout. They concluded from the research that dividend and being an insider has no influence on the amount of debt for a firm (Abbas, 2016). Banerjee and Anupam investigated capital structure decisions in 2016 and how they impact the dividend payout ratio during the pre & post-recession era in India.

Research has been performed regionally, concentrating on the capital structure of companies quoted on African stock exchanges, but there are research gaps defined as geographical, firm size, and different economic conditions prevailing in different countries. In 2016, Mwambuli researched the effect of the corporate capital structure on corporate financial performance in emerging economies, focusing on East African stock. The report concluded that the capital structure had a negative but great effect on East African listed companies In 2018, Hailegebreal and Wang executed a study to understand the factors affecting the capital structures of African firms, concluding that asset tangibility, profitability, financial distress, and non-debt tax shields form strong company-specific capital determinants. In Nigeria, Oliver and Iniviei (2016) also performed research on the dividend policy and its effect on the valuation of firms, reflecting the maximization of shareholder capital.

Local research has been performed on the capital structure and dividend payments of NSE-listed companies, with most of the studies focusing separately on the two aspects. Research by Bulla (2019) looked at the dynamics of dividend payments in emerging shares, with evidence from listed companies in the NSE. In 2013, Egessa, Musiega, Ondiek, and Christopher conducted a study on what defines the dividend payout between non-financial companies in the NSE, In 2012, Murekefu and Ochuodho analyzed the association between firm performance and dividend payout for listed companies in Kenya. The existing research gap in local studies is the direct connection between the capital structure and the dividend payout ratio. Much of the previous studies looked at other factors impacting either the capital structure or the dividend payout ratio.

Musiega (2013) explored profitability, current earnings, growth, and a firm's liquidity levels to their dividend policies. Dividends payout being an important factor in signaling to investors and the business environment how well a company is performing, there is a need to probe further into all the factors affecting dividend policies. Studies have explored some of the factors that affect dividend policies, with Bulla (2019) showing that the highest influence observed on dividend payout ratio is the previous dividend payout trend.

There is limited literature on the capital structure and its effect on the NSE payout ratio of publicly-listed non-financial companies in Kenya.The study will address the gap by answering; what is the impact of the capital structure on the dividend payment ratio of non-financial firms listed on the NSE in Kenya?

1.3 Research Objectives

The study sought to determine the effect of the capital structure on the payout ratio of dividends to non-financial firms publicly listed on the NSE in Kenya.

Specific objectives included in the study:

1. To examine whether the amount of equity in non-financial companies quoted on the NSE significantly affects the dividend payout ratio.
2. To analyze whether long-term debt levels in non-financial firms quoted on the NSE have a major effect on the dividend payout ratio.
3. To investigate whether the retained earnings of non-financial firms quoted at the NSE have a substantial effect on the dividend payout ratio.

1.4 Value of the Study

The study provided listed as well as private firms with the literature on how the dividend policy is affected by the capital structure of the firm. Findings from this research study are valuable to finance managers in firms in Kenya, and will actively assist in articulating operational strategies regarding making decisions regarding levels of debt, shares floated to the public, and how these decisions affect the dividend policy they adopt.

The study added to the present body of information on capital structure and dividend policies. It also contributed to studies for scholars aiming to do further research on non-financial firms and the dividend policies they adopt and how such policies are affected by their capital structures. Future scholars and academics will use the study to delve into the topic to expand on as they discuss capital structures and dividend policy.

Capital Markets Authority was informed by such research as they add on to existing research topics and reports. More information on how the two elements interact is important for decisions made by the CMA regarding minimum capital levels imposed on listed companies.

The study shed more light on the general public concerning how the capital structure of companies they invest in influences the dividend policies of the firms. This impacts heavily on investors who not only consider capital gain returns but are also interested in dividends as they plan on long term investing.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section formulates the frameworks on which the survey was built, helping to develop an understanding and insight into relevant emerging trends and previous research. The chapter will focus on theoretical review, capital structure, and dividend policy.

2.2 Theoretical Review

A theoretical review discusses the theories put forward by various scholars and researchers in the capital structure literature. These theories include the pecking theory of order, Modigliani and Miller Theory, and the trade-off theory of capital structure.

2.2.1 Modigliani and Miller Theory

Modigliani and Miller (1958) formulated the theory that scholars build upon capital structure theories. Their theory had three concepts, the first in 1958, which argued that the amount of the companies 's debt and equity did not directly impact its market value based on some assumptions. This plan can only be maintained if it assumes optimal capital markets and zero frictions, such as bankruptcies and transaction costs. In the real world, however, markets are never perfect; thus, the capital structure can be important. In 1961, their second proposition stipulated that the company's leverage did not affect the average working price of capital (Webi, 2020). The last was in 1965 when the company's pricing was not influenced by the policy on dividends. The hypothesis was developed based on assumptions that there is no transaction fee,

that the market is faultless, that there are no taxes and that there is a knowledge balance, and that there are no bankrupt expenses. Subsequently, Modigliani and Miller (1965) revised their capital structure non-performance tax plan.

The assumptions held by Modigliani and Miller, which are barely true in the real world included the assumption that capital markets having no transaction or bankruptcy costs, and there are no different classes of risk for firms, the only form of tax that would matter would be corporate tax, that all cash flows are perpetuities and an assumption that there is no growth factor in the cash flows, outsiders and insiders having no information asymmetry, zero moral hazards on the managers end as they work for shareholders wealth maximization, and finally the firms issuing exclusively two types of claims, that is equity that comes with risk & debt without risk (Shivaraj, 2014).

The Modigliani and Miller hypothesis led to plenty of research about what is important for the capital structure, with much research focusing on the violation of the assumptions. Most debts in the capital market are uncertain and information asymmetry exists within both the insider and outsider investors (Shivaraj, 2014).

This study evaluates the outcome of borrowings and own capital on the dividend payout ratio of non-financial companies which are listed on the NSE in Kenya, which can either validate or invalidate this theory as it is based on several suppositions that are not realistic.

2.2.2 The Trade-off Theory

The theory suggested by Myer in 1984 stipulates that the optimal capital structure is a swap between the financial distress price tag and the interest shield. The theory suggested a modified

MM proposition and can be expressed as the summation of the firms' worth, where the capital is entirely equity, and the interest tax shields, less the cost of financial distress. It proposes that all corporations have optimal leverage where at the optimum debt ratio; advantages accrued from tax shields are offset by financial distress costs (Shivaraj, 2014).

The theory expounds on why businesses follow a guarded attitude to debt issues despite tax shield advantages. Some of the testable consequences of the model include high-risk companies, firms with exceptionally valuable prospects for growth and development, and firms with intangible assets that can take on less debt due to high financial distress costs. The theory does not explain why some lucrative companies within a certain industry may have a low debt ratio, contrary to trade-off forecast on profitability and tax shield (Webi, 2020).

This theory is paramount to explaining the variance in capital structures across different countries, without fully explaining why some lucrative companies within some industries have low debt ratios contrary to trade-off forecasts on profitability and tax shield. Hence the need for this study on how the firm's capital structure impacts the firm's dividend payout ratio.

2.2.3 The Pecking-Order Theory

The theory was proposed by Myers & Majluf in 1984, building upon the trade-off theory by considering information asymmetry. The theory however does not take into consideration the idea of optimal capital structure, but it does consider the signaling effect. The theory states that managers would not sell additional new shares that are undervalued if they have the best interests of shareholders (Shivaraj, 2014). This theory proposes that firms will only issue additional new shares at a market down price when at equilibrium.

The theory states that during the period of share price declaration, the stock price declines as most investors expect managers to issue overpriced stocks. This causes most firms to prefer issuing debt as this will give them funds without sending appalling signals in the marketplace (Webi, 2020). The theory supposes that when making financing decisions, internal funding is ideal over external funding, and in the case of external funding, debt should be issued first and equity considered as the last remedy. This theory has an advantage over the trade-off theory as it can explain the diversity in capital structures in different industries (Juma'h, 2008).

The theory defines the order and the relationship between managers and shareholders. These two sets are at the core of the decisions that affect the policies and ratios of dividend payouts as well as the capital structure of the firms that are the subject of this analysis.

2.3 Determinants of Dividend Payout Ratio

The payout dividend ratio is determined by a variety of factors, including firm liquidity, investment opportunities, profitability, leverage, and firm size (Mui, 2016). Studies looked at the impact of profitability, corporate tax, cash flow, debt-to-equity ratio, current ratio; and market-to-book valuation on dividend payments (Takumi, 2012). Control variables used in the analytical model included market capitalization, the price of book value, and the return on assets.

2.3.1 Market capitalization

This involves calculations on the natural logarithm of total assets held by a firm. It is generally expected that the association between market capitalization and dividend payout is positive for larger firms due to a large number of total assets. However, some studies do show the existence of a negative association between dividend payout and market capitalization (Lantz, 2016).

Market capitalization is arrived at by multiplying the current market price of one share with shares outstanding. Companies on the stock market are generally divided according to their market capitalization. Market capitalization goes high if there is a demand for a company's shares which increases the share price, also acting as an indicator of great future growth potential.

2.3.2 Price-to-book Ratio

The price-to-book proportion is usually associated with the growth opportunities of a firm. Studies show that the association between price-to-book and dividend payout should be negative, and is computed as share price divided by the book value (Lantz, 2016). The price-to-book ratio is calculated as a percentage of how many times a firm trades per share relative to the firm's book value per share (Jagongo, 2014).

2.3.3 Return on Assets:

The returns realized on assets is an evaluation of the profitability of a firm. Studies show that companies with higher earnings are associated with the payment of dividends. The relationship between the return realized on resources and profit payout ratio is required to be positive. The proportion is determined as total compensation before account costs/all out resources (Lantz, 2016). The effect of profitability on the payment of the dividends as it is a net profit portion earned by a firm. The dividend is therefore distributed if the company makes substantial gains. Profitability is a core determinant of the number of dividend payments and the company's willingness to pay dividends (Malkawi,2008).

2.4 Empirical Studies

2.4.1 Global Studies

Studies conducted before on capital structure and its efffect on dividend strategy incorporate a report by Arindam and Anupam in 2016 on capital structure decisions and the effect they have on the payout profit ratio during the pre-and post-decline time in Indian situations: A survey looked at the effect of capital structure decisions on the profit payout ratio for organizations on BSE 500 in India. The examination considered the dividend payout ratio as a depedend variable, with ten independent variables focusing in on business risks, size, development rate, financing cost inclusion, influence, resource return, and a non-obligation charge shield. The research study then finalized that the development rate and productivity majorly affected the profit payout proportion in the pre-downturn time frame, while the influence proportion was a critical variable that influenced the profit payout proportion in the post-downturn time frame (De, 2015).

In 2016, Mula, Farooq, Afshan, Fahad, and Ghulam led an investigation looking at the impact of the organization's capital structure and profit installment strategy on its monetary execution with proof from Pakistan's assembling area pointed toward surveying the effect of its capital structure and profit strategy. The investigation gathered information from the yearly reports of the associations utilizing the information audit of the board. The examination established that there exist a positive connection between momentary obligation, long-term debt, profit strategy, and profit for resources, yet there is no significant connection between debt and profit for assets (Khan, 2016).

In 2018, Abbas, Hashmi, and Dazal researched capital structure and profit strategy, which analyzed endogeneity. The investigation inspected the association between dividend payout and capital structure, the evaluation of profit strategy determinants, and the capital structure of Pakistan's assembling area. The examination dissected the scale, productivity, liquidity, development potential, capital structure, and substance of the organization as determinants of profit strategy while utilizing the size, benefit, liquidity, charge reserve funds, pay vacillations, and profit payout as determinants of the capital structure. The examination reasoned that size, productivity, liquidity, and levarage had a positive and critical impact on profit strategy, with development and advancement openings having a negative and huge effect on profit strategy and no effect on substantial quality. The examination reasoned that the profit procedure and the capital structure of the organizations were emphatically connected (Abbas, 2016).

2.4.2 Regional Studies

A study by Mwambuli in 2016 on the capital structure of organizations and the impact of corporate financial execution in arising economies, based on information from East African securities exchanges. The investigation factually assessed the critical impact of the capital structure on financial performanceof recorded non-monetary organizations in the East African financial market. The examination introduced 272 surveys of 34 organizations recorded on the NSE, the Uganda Securities Exchange (USE and the Dar Salaam Stock exchange (DSE) for a very long time. Eventually, the investigation found that the capital structure impacted the East African recorded firm, with a 5 percent significance. The investigation found that overall, benefit making organizations will in general utilize inward wellsprings of account in their capital structure rather than outer wellsprings of money (Mwambuli, 2016).

Hailegebreal and Wang 2018 executed a survey seeking to understand the capital structure determinants of African corporations. The study covered different financial, economic, legal, and institutional environments. The study concluded that asset tangibility, profitability, financial distress, and non-debt tax shields form strong firm-specific factors of the capital structure of firms in African firms. The study also concluded that the banking sector development, corporate tax rate, GDP growth rate, lending rates consist of the most important determinants of capital structure in a country (Wang, 2018).

In 2016, Oliver and Iniviei conducted a study in Nigeria exploring the influence of the dividend policy on the value of companies as it is reflected in the shareholder's maximization of wealth. Data were extracted for five years from stocks chosen at random from the Nigeria stock exchange. They concluded from the study that earnings per share are the predominant variable that influences the share value of companies (Iniviei, 2016).

2.4.3 Local Studies

In 2018, Muiruri researched the political effect of the profit on financial consequences of the organizations recorded on the Nairobi Stock Exchange. The examination study covered a long time from 2013 to 2017 and focused on the 65 recorded organizations in the NSE. Information were examined utilizing SPSS and the f-test measurement was assessed at a 5% centrality level. The investigation presumed that there was an unmistakable association between's the profit strategies and the financial effects of the organizations recorded inthe NSE (Muiruri, 2018).

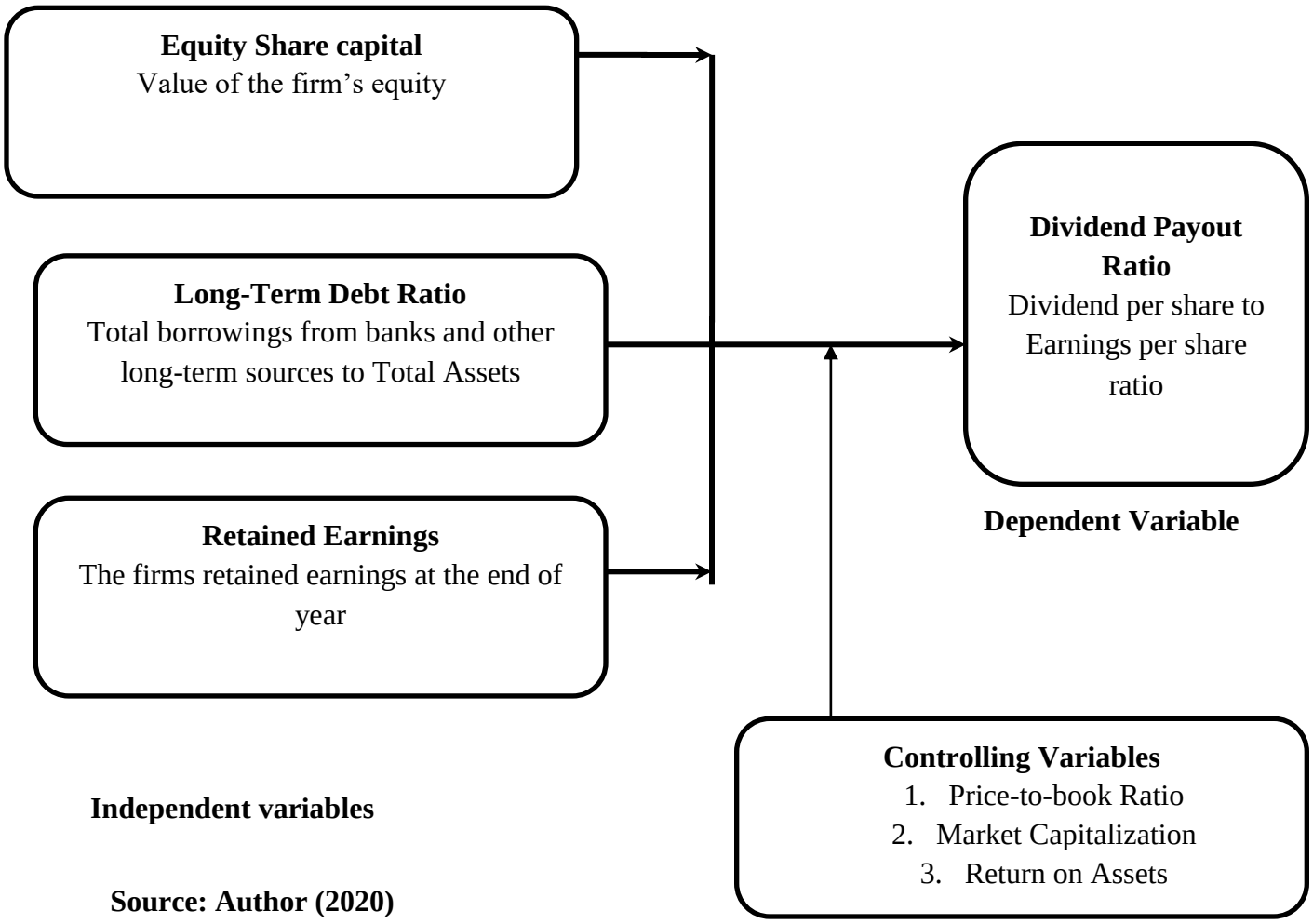
In 2016, Murage did an examination report on the connection between the capital structure and the profit payout ratio of organizations recorded on the Nairobi Stock Exchange. The exploration examination utilized information from 2011 to 2015 utilizing quantitative examination strategies.

The investigation concluded that the selected factors influence the organization's payout ratio, with enormous companies having higher profit payout proportions than more modest firms. The investigation additionally demonstrated that there was an adversely significant connection between the capital structure and the circulation proportion of the profit (Murage, 2016).

2.5 Conceptual Framework

The framework allows the research to build knowledge and to better explain the variables under study as depicted below:

Figure 1.1: Conceptual Framework



Source: Author (2020)

The investigation variable, the independent variable, the capital structure of value capital, the long term debt, and the held income. Value share capital is resolved with the estimation of the shares outstanding toward the year's end while the long term debt ratio is determined by the long term debt ratio against the total assets held and held income estimated by the quantity of benefits held toward the year's end

The dependent variable, dividend payout ratio, was operationalized by comparing with both the dividend per share ratio and the earnings per share ratio.

Control variables included market capitalization, the price-to-book ratio and the total return on assets. Control variables are variables that affect the dividend payout ratio and are most likely to impact the results of the research; thus they have helped to reduce bias in the findings. Market capitalization was measured by the natural logarithm of the holding company's total assets. The return on assets was calculated by dividing the net profit, profit after tax, by the total assets of the company. The price-to-book ratio is also associated with growth opportunities and calculated as the share price divided by the book value per share.

2.6 Summary

From the empirical studies, dividend policy is influenced by various factors; however, a consensus is yet to be arrived at on the factors that affect dividend policies. Different scholars have conducted studies into factors that affect dividend policy; however, no researcher has encompassed all factors in one study. Most of the studies highlighted show a positive and significant association between capital structure and proponents of capital structure and firms'

dividend policy. The studies highlighted in the empirical studies cover listed firms in the stock exchanges; however, there is limited study on the NSE quoted non-financial establishments in Kenya.

The study aimed to fill the gap on studies into firms in Kenya and how their capital structure relates to the dividend policies they put in place. Previous studies highlighted have research gaps that include objective, scope, and geographical location gaps. There is a specific objective gap in establishing the effect of capital structure on a dividend payout ratio in publicly listed non-financial firms on the NSE in Kenya.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The section sets out the approaches and techniques used in the research process. This chapter allows the researcher to address the research question raised. It serves as a guide for the researcher in the collection, analysis, and interpretation of their findings. This section examines methods of research used. Beginning with the research design, targeted population, sampling procedure, methods of collecting data and, finally, analysis of data.

3.2 Research design

The examination utilized a descriptive approach in exploring the impacts of the capital structure on the pay-out dividend ratio for non-financial firms recorded on the NSE in Kenya. A descriptive overview was surveyed as the examination was led to decide the connection between the two variables. The research depended on information from non-financial firms in the NSE. The investigation was quantitative, based on information gathered from the NSE, the organization's sites and freely available reports and the CMA reports.

3.3 Population

Mugenda (2013), the population is an all-around defined set of individuals, elements and services, sets of artifacts or family units under investigation. The target populace comprised of each of the 40 non-financial firms recorded in the NSE in Kenya. The population was small in size and there was thusly no requirement for a census sample of the non-financial firms recorded

in the NSE as set out in the appendix. The time frame from 2010 to 2019 reflects the current trend, utilizing the most accessible information for research.

3.4 Data Collection

The research collected data from secondary sources from the NSE and the individual websites of the firms for a 10 year time frame from 2010 to 2019. Data collected comprised of equity, retained earnings, long-term debt, dividends, and earnings per share.

3.5 Diagnostic Tests

3.5.1 Correlations and Multicollinearity Tests

Correlation experiments have been carried out to indicate which variables can be associated with the dependent variable. It then tests the relation between two variables and assumes a value between-1 and 1. Multicollinearity should be removed from the data as it produces a difficult issue when there is a high correlation between multiple independent variables. Multicollinearity is evaluated through a regression analysis, with VIF, measured as 1 divided by 1 minus R squared, which is the coefficient of determination, having values above 10 which are of concern.

3.5.2 Heteroscedasticity Test

A heteroscedasticity test was applied to determine if the error term is constant across independent variable values. A Breusch-Pagan test was used to control heteroscedasticity.

3.5.3 Natural Logarithm

Natural logarithm was used to convert the data to increase the suitability of the data for statistical testing when the data does not meet linearity or normality assumptions. The natural transformation of the logarithm produced a less skewed distribution. This move ensured that data trends were established as well as model assumptions met for accurate results that validated interpretations.

3.6 Data Analysis

The collected data was arranged very systematically to facilitate the study. Data analysis included the planning, editing, coding, and cleaning of data hence facilitating the processing of data using STATA. Prepared data was input for analysis in the STATA software. STATA has been used since it is consistently systematic, up-to-date, and covers a wide range of mathematical data manipulation and analysis. The relationship between variables was explained by the use of the regression model.

Regression analysis is a statistical method that generates a mathematical equation that demonstrates how variables are connected. The independent variables in the analysis were equity capital, retained earnings, and long-term debt. The formula for regression was used to determine the association between the dividend payout ratio and the capital structure as shown below;

Dividend Payout ratio = f (Capital structure)

$$Y = \beta_0 + \beta_1 (X_1) + \beta_2 (X_2) + \beta_3 (X_3) + \beta_4 (X_4) + \beta_5 (X_5) + \beta_6 (X_6) + e$$

Where **Y** = payout dividend ratio

X_1 = Equity share capital

X_2 = Long-term debt Ratio

X_3= Retained earnings

X_4 = Price to Book Ratio

X_5 = Market Capitalization

X_6 = Return on Assets

$\beta_0, \beta_1, \beta_2, \beta_3, \beta_4, \beta_5,$ And β_6= Constants – Defining the dividend payout ratio without t inclusion of an independent variable, defining the amount whereby Y is changed for each unit change in the independent variables.

.

e= Error Term

The strength of the association of capital structure and the dividend payout ratio of non-financial firms listed on the NSE was tested using the correlation coefficient. The correlation coefficient should range from -1 to +1, which measures the bond between capital structure variables and dividend payout ratio, where 1 indicates a perfect negative relationship, a score of -5 to -1 signifies a strong relationship, and between -0.5 to 0 shows the coexistence of a negative weak relationship. A score of 0 to 0.5 signifies a weak but positive relationship, with 0.5 to 1 indicates a strong positive relationship. The study used a 95% significance level, which means that a

variable with a p-value less than 0.05 has a significant relationship with the dependent variable and a p-value of more than 0.05 shows there exists no significant relationship.

CHAPTER FOUR

DATA ANALYSIS, RESULTS, AND DISCUSSION

4.1 Introduction

This section provides the results of the study and analysis of the data. The data for the analysis were obtained from the statements of the financial position and the statements of detailed profits for the ten years from 2010 to 2019. Using STATA, the data were analyzed with descriptive results, correlation results, and regression presented in the tables. Diagnostic tests were performed on the data and presented in table form.

4.2 Descriptive Analysis

The independent variables measured included share capital, retained earnings, and long-term debt, with the dividend payout ratio being the dependent variable. Market capitalization, share price, asset return, and price-to-book ratios were used as control variables.

The total value of the results , divided by the total number of observations, is the mean, while the middle value is the median, Standard deviation is the square root of the variance, which shows how close the data is to the mean. The minimum is the lowest value of the measure, while the maximum value of the data is the largest.

Table 1- Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
CompanyName	0				
Year	400	2014.5	2.875878	2010	2019
Dividendpa~o	396	-20.23929	135.3466	-1286.103	42.13443
Equityshar~l	399	1.94e+07	6.76e+07	0	4.05e+08
LongTermDebt	358	9487773	3.23e+07	0	1.89e+08
RetainedEa~s	350	-2130961	7.93e+07	-7.09e+08	4.20e+08
MarketCapt	397	4.87e+08	3.30e+09	39	4.23e+10
PricetoBoo~o	396	135.1093	1209.279	-555.5556	22200
Shareprice	400	109.5487	262.9509	.59	1500
ReturnonAs~s	396	12.85312	169.3298	-73.82858	3356

Source – Analyzed Data

The results show that over the ten years, the mean average was 9487773 for long term debt, equity share capital 19400000, dividend payout ratio at -20.23929, retained earnings had a mean average of -2130961, market capitalization had a mean of 487000000, price to book ratio 135.1093, share price 109.5487, and return on assets 12.853.

The standard deviation, which measures how close the data drawn from the variables are from the mean, was 32300000 for long term debt, equity share capital 67600000, dividend payout ratio at 135.3466, retained earnings had a standard deviation of 79300000, market capitalization had a mean of 330000000, price to book ratio 1209.279, share price 262.9509, and return on assets 169.3298.

4.3 Diagnostic Tests

Diagnostic tests assess if the data follows a normal distribution. A correlation matrix was employed to examine the association between the variables. Figures are Pearson correlation coefficients which go from -1 to 1. The more a number is closer to 1 the stronger the correlation, with a negative value representing an inverse relationship between the variables. The correlation between Dividend payout ratio, equity share capital, long term debt and retained earnings is shown below in a series of tables.

Table 2- Correlation Analysis (Capital Structure Variables)

	Divide~o	Equity~l	LongTe~t	Retain~s
Dividendpa~o	1.0000			
Equityshar~l	-0.0057	1.0000		
LongTermDebt	-0.0016	0.0847	1.0000	
RetainedEa~s	0.0001	-0.3542	0.0865	1.0000

Source – Analyzed Data

Correlation Analysis results showing relationship between Dividend payout ratio, Equity Share capital, Long term Debt and Retained Earnings

Correlation between dividend pay-out ratio was -0.0057 to that of equity share capital, -0.0016 to long term debt, and 0.0001 to retained earnings. Long term debt correlated 0.0847 to equity share capital, retained earnings correlated -0.3542 to equity, and 0.0865 to long term debt.

Table 3- Correlation Analysis (Controlling Variables)

	Divide~o	Market~t	Pricet~o	Sharep~e	Return~s
Dividendpa~o	1.0000				
MarketCapt	0.0218	1.0000			
PricetoBoo~o	0.0147	0.1619	1.0000		
Shareprice	-0.3122	-0.0369	-0.0096	1.0000	
ReturnonAs~s	-0.0079	0.0793	0.2881	0.0027	1.0000

Source – Analyzed Data

Correlation Analysis Results showing Relationship between Dividend payout ratio, Market Capitalization, Price to Book ratio, Share price and Return on Assets

Correlation between dividend pay-out ratio was 0.0218 to that of market capital, 0.0147 to price to book ratio, -0.3122 to share price and -0.0079 to return on assets. Price to book ratio correlated 0.1619 to price to market capitalization, share price correlated -0.0369 to market capitalization, and -0.0096 to price to book ratio. The return on assets correlated 0.0793 to market capitalization, 0.2881 to the price to book ratio and 0.0027 to share price.

Table 4- Correlation Matrix

	Divide~o	Equity~l	LongTe~t	Retain~s	Market~t	Pricet~o	Sharep~e	Return~s
Dividendpa~o	1.0000							
Equityshar~l	-0.0057	1.0000						
LongTermDebt	-0.0016	0.0849	1.0000					
RetainedEa~s	0.0001	-0.3540	0.0862	1.0000				
MarketCapt	0.0011	-0.0430	-0.0067	0.0474	1.0000			
PricetoBoo~o	0.0009	-0.0306	-0.0287	0.0128	0.1594	1.0000		
Shareprice	0.0021	-0.0933	-0.0732	-0.0050	-0.0300	0.0038	1.0000	
ReturnonAs~s	0.0008	-0.0194	-0.0159	0.0204	0.0778	0.2876	0.0077	1.0000

Source – Analyzed Data

From the tables above the correlation between dividend and equity capital is-0.0057,-0.0016 to long-term debt, 0.0001 to retained earnings, 0.0011 to market capitalization, 0.0009 to price-to-book ratio, 0.0021 to share price, and 0.0008 to ROA. Long-term debt had a ratio of 0.0849 to equity capital, retained earnings had a ratio of-0.3540 to equity capital and 0.0862 to long-term debt.

Market capitalization had a correlation of-0.0430 to equity capital,-0.0067 to long-term debt, and 0.0474 to retained earnings. The price-to-book ratio had a ratio of-0.0306 to equity capital,-0.0287 to long-term debt, 0.0128 to retained earnings and 0.1594 to market capitalization. The return on assets had a ratio of-0.0194 to equity capital,-0.0159 to long-term debt, 0.0204 to retained earnings, 0.0778 to market capitalization and 0.2876 to price-to-book ratio. Multicollinearity test tests whether standard errors can be exaggerated in the model and checked using the variance inflation indicator(vif) shown in the table below.

Table 5 -vif

Variable	VIF	1/VIF
Equityshar~l	1.17	0.852645
RetainedEa~s	1.16	0.858993
PricetoBoo~o	1.11	0.897535
ReturnonAs~s	1.09	0.915870
MarketCapt	1.03	0.969808
LongTermDebt	1.03	0.972887
Shareprice	1.02	0.984763
Mean VIF	**1.09**	

Source – Analyzed Data

From the table above, the figures indicate the figures are okay and multi collinearity was not an issue of concern.

4.4 Regression Analysis

Regression analysis was conducted using the dividend pay-out ratio as a dependent variable, with independent variables retained earnings, long-term debt and market share capital. Market capitalization, price-to-book ratio, share price and return on assets were used as variable controls. The regression analysis was conducted using the dependent variables and the control variables. There was also a regression on both the dependent and the control variables, with the output tables as below.

The dependability of X for anticipating Y, with a value under 0.05 recommending a significant connection among X and Y, is shown by the p-value of the model. The R-squared shows the amount of the Y difference characterized in X. The root MSE, which is the root mean squared error, shows the sd of the regression, the closer to zero, the greater the regression.

Table 6 -Regression Analysis (Capital Structure Variables)

```
      Source |       SS           df       MS      Number of obs   =       325
-------------+----------------------------------   F(3, 321)       =      0.00
       Model |  .114662764         3  .038220921   Prob > F        =    0.9997
    Residual |  3080.79764       321  9.59750045   R-squared       =    0.0000
-------------+----------------------------------   Adj R-squared   =   -0.0093
       Total |  3080.91231       324   9.5089886   Root MSE        =     3.098
------------------------------------------------------------------------------

Dividendpa~o |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
Equityshar~l |  -2.87e-10   2.72e-09    -0.11   0.916    -5.64e-09    5.07e-09
LongTermDebt |  -8.86e-11   5.56e-09    -0.02   0.987    -1.10e-08    1.08e-08
```

RetainedEa~s	-8.23e-11	2.44e-09	-0.03	0.973	-4.89e-09	4.72e-09
_cons	-.0146186	.1842209	-0.08	0.937	-.3770514	.3478141

Source – Analyzed Data

Regression Analysis results showing relationship between Dividend payout ratio, Equity share capital, Long-Term Debt and Retained Earnings

The p-value for the regression of dividend payout ratio and equity capital, long-term debt and retained earnings is 0.9997, which indicates a non-statistically important relationship between dividend payout ratio and equity capital, long-term debt and retained earnings.

R-squared in this case is 0.0000 which describes the 0 per cent difference in the share capital, long-term debt and retained earnings of the dividend payout ratio. The root MSE, which is the root mean squared error, indicates that the sd of the regression is 3.098.

Table 7- Regression Analysis (Control Variables)

Source	SS	df	MS	Number of obs	=	392
Model	707362.059	4	176840.515	F(4, 387)	=	10.49
Residual	6526869.91	387	16865.2969	Prob > F	=	0.0000
Total	7234231.97	391	18501.872	R-squared	=	0.0978
				Adj R-squared	=	0.0885
				Root MSE	=	129.87

Dividendpa~o	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
MarketCapt	3.72e-10	2.02e-09	0.18	0.854	-3.59e-09	4.34e-09
PricetoBoo~o	.0015453	.0057947	0.27	0.790	-.0098477	.0129384
Shareprice	-.1597874	.0247721	-6.45	0.000	-.2084922	-.1110826
ReturnonAs~s	-.0093484	.0403233	-0.23	0.817	-.0886287	.0699318

_cons	-2.911046	7.218019	-0.40	0.687	-17.10249	11.28039

Source – Analyzed Data

Regression Analysis results showing the relationship between dividend payout ratio, market capitalization, price to book ratio, share price, and return on assets

The p-value for the model is 0,00 which suggests a meaningful association between the dividend payout ratio and the variables. R-squared in this case is 0.0978 and describes the difference of 9.78 per cent of the payout ratio influenced by market capitalization, price-to-book ratio, share price and return on assets.

Table 8 - Regression Analysis

Source	SS	df	MS	Number of obs	=	324
Model	.125118238	7	.017874034	F(7, 316)	=	0.00
Residual	3080.78677	316	9.74932523	Prob > F	=	1.0000
Total	3080.91189	323	9.53842691	R-squared	=	0.0000
				Adj R-squared	=	-0.0221
				Root MSE	=	3.1224

Dividendpa~o	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
Equityshar~l	-2.78e-10	2.76e-09	-0.10	0.920	-5.70e-09	5.15e-09
LongTermDebt	-7.77e-11	5.61e-09	-0.01	0.989	-1.11e-08	1.10e-08
RetainedEa~s	-8.24e-11	2.46e-09	-0.03	0.973	-4.93e-09	4.77e-09
MarketCapt	7.02e-13	4.86e-11	0.01	0.988	-9.49e-11	9.63e-11
PricetoBoo~o	9.36e-07	.0001395	0.01	0.995	-.0002735	.0002753

Shareprice	.0000249	.0009827	0.03	0.980	-.0019085	.0019582
ReturnonAs~s	9.21e-06	.0009709	0.01	0.992	-.001901	.0019194
_cons	-.0175407	.2072776	-0.08	0.933	-.4253592	.3902778

Source – Analyzed Data

Regression Analysis of results showing the relationship between Equity Share Capital, Dividend Payout Ratio, Long Term-Debt, Retained Earnings, Market Capitalisation, Price to Book Ratio, Share Price and Return to Assets

The p-value for the model is 1.0000, which demonstrates a significant connection between the payout ratio of the dividends and the payout ratio of the dividend variables, share capital, long term debt obligation, retained income, market capitalization, cost to-book ratio, share cost and profit for resources. R-squared for this situation is 0.0000 and defines the 0 percent distinction in the offer capital, long term debt, retained profit, market capitalization, cost to-book proportion, share cost and profit for resources. The root MSE, which is the root mean squared error, implies that the sd of the regression is 3.1224.

The t-values test the theory that the coefficient changes from 0. You will require a t-value greater than 1.96 to disprove this speculation (for 95 percent certainty). The estimation of the variable in the model is likewise appeared as t-values. Two-tail p-values are utilized to assess the theory that every coefficient varies from 0. To deny this, the p-esteem found must be under 0.05. From table 4.4.3, the p-esteem is 1.0, inferring that there is no critical cooperation between our dependent variable and the independent variables.

4.5 Interpretation of the Findings

The results show that, for the ten years, the average for the variables under review was 9487773 for long-term debt, 19400000 for equity capital, dividend payout ratio was-20,23929, retained earnings was-2130961, market capitalization was 487000000, price to book ratio was 135,1093, share price was 109,5487 and return on assets was 12,853. These figures give the averages for all the variables studied, giving the values of the central variables.

The standard deviation was 32300000 for long-term debt, equity capital 67600000, dividend payout ratio at 135.3466, retained earnings had a standard deviation of 79300000, market capitalization had an average of 330000000, price to book ratio 1209.279, share price 262.9509, and asset return 169.3298. The standard deviation indicates how near or far the variables are to the average.

Long-term debt had a deviation of 3230000 from the mean of 9487773, the capital stock had a deviation of 1940000 from the mean of 67600000. The DP ratio had a deviation of 135,1093 from the mean of-20,23929, the retained earnings had a deviation of 79,300,000 with a mean of-21,30961 and the return on assets had a deviation of 169,3298 with a mean of 12,853. The variance figures for all variables are high, showing a diverse data pool of large and varied figures. This can be because the firms under study vary from medium to large firms.

Based on the regression analysis carried out the independent variables do not substantially affect the pay-out ratio of the dividend as shown by the square R value of-0.0093, which is a negative 0.93 per cent influence. The squared value of the R reflects the difference in the pay-out ratio of the dividend described by the independent variables. The value is negative which can be

interpreted as having a negative and inverse influence of the dependent variable by the independent variables.

Running the correlation matrix for capital structure variables that include retained earnings, long-term debt and equity capital gives a correlation between dividend and equity capital of-0.0057,-0.0016 for debt and 0.0001 for retained earnings. Long-term debt had a ratio of 0.0847 to equity capital, retained earnings had a ratio of-0.3542 to equity and 0.0865 to long-term debt. None of the dependent variables was strongly correlated with the dividend payout ratio, with long-term debt being inversely correlated with the dividend payout ratio.

Based on the results, a positive correlation was formed between the dividend pay-out ratio, with equity capital at 0.0410, market capitalization at 0.0218, and the price-to-book ratio at 0.0147. Although optimistic, they are not strong relationships as they are not closer to 1. There is an inverse association between the payout ratio of the dividend and the long-term debt at-0.0021, the retained earnings at-0.0089, the share price at-0.3125 with a 5% interest rate, and the return on assets at-0.0079.

The p-value for the regression of dividend payout ratio and equity share capital, long term debt and retained earnings is 0.9997 which show a non-statistically significant relationship between dividend payout ratio and equity share capital, long term debt, and retained earnings. R-squared in this case is 0.0000 and explains 0% variance in dividend payout ratio influenced by equity share capital, long term debt, and retained earnings. The Root MSE which is the root mean squared error shows the sd of the regression is 3.098.

This implies that the independent variables do not significantly influence the dependent variables. Therefore, a change in the retained earnings, the long-term debt and the equity share capital does not translate to a positive variation in the dividend payout ratio. The Root MSE is close to zero which means a better fit.

The p-value for the model is 1.0000, which indicates a statistically non-significant correlation between the dividend dividend payout ratio, equity capital, long-term debt, retained earnings, market capitalization, price-to-book ratio, share price and return on assets. R-squared in this case is 0.0000 and describes the 0 per cent difference in the dividend payout ratio affected by equity capital, long-term debt, retained earnings, market capitalization, price-to-book ratio, share price and return on assets. The root MSE, which is the root mean squared error, indicates that the sd of the regression is 3.1224. The p-value of table 4.4.3 is 1.0, which indicates that there is no meaningful association between our dependent variable and the independent variables.

The report demonstrates the consequences of an investigation of 16 organizations in the NSE listing, Industrial and Allied Sector, which uncovered an unmistakable reverse connection between the payout profit ratio and the leverage ratio, though there was a helpless connection between the profit payout ratio and the held income. (William Sang, 2015) The debt and the retained income detrimentally affect the dividend payout ratio. Kimani Joshua Murage broke down the relationship between the capital structure and the dividend payout proportion of the organizations recorded on the Nairobi Stock Exchange in 2016 utilizing information from 2011 to 2015 utilizing quantitative investigation methods. The examination presumed that there was a negative however important connection between the capital structure and the profit payout ratio (Murage, 2016).

This study shows that while the regulating variables that included asset returns, market capitalization, price to book ratio and share price greatly affect the dividend payout ratio, the variables of the capital structure components that included long term debt, retained earnings and equity capital are not key drivers of the dividend policy.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This section contains a discoveries of the findings based on the variables under investigation. The main aim of the research was to determine capital structure and how it has an impact on the dividend payout ratio of non-financial firms listed on the Nairobi Stock Exchange. The chapter also discusses the findings, limitations, policy guidelines, and proposed area of further study.

5.2 Summary of the findings

The investigation led was to decide if the payout dividend ratio, as portrayed in the profit strategy received by the non-financial firms recorded on the NSE, is essentially influenced by the capital structure. The examination demonstrated that there is no huge connection between the payout ratio of the dividend and the capital structure of the company. Controlling the factors utilized shows that they have a measurably significant impact on the payout ratio of the profit to the capital.

The data analyzed in the study show that the variables representing the capital structure of a company consisting of long-term debt, equity capital, and retained earnings do not substantially affect the firm's policy on the distribution or retention of dividends. The dividend payout ratio does not increase or decrease to the same degree that the independent variables increase or decrease.

The study supports previous studies that have found a weak nexus between dividend payout ratio and leverage, concluding that retained earnings and leverage negatively affects the dividend

payout ratio (Sang, 2015). Listed companies on the NSE tend to pay dividends more if there is a large number of shareholders and a higher percentage of equity. This is because investors expect returns, for long term investors, the expected return is dividends. Mwambuli in 2016 executed a survey on the imoact of corporate capital on performance in developing economies, drawing confirmation from East African Stocks. The study concluded that the capital structure may have an inverse and a better influence on East African listed companies.

5.3 Conclusions

As indicated by the examination, the independent variables don't essentially influence the pay out ratio of the dividends as appeared in the square R-estimation of-0,0093 negative 0,93%. The p-value for the decrease of dividend payout ratio and value capital, long term debt, and retained income is 0.9997, inferring a non-measurable worthwhile connection between profit payout ratio and value capital, long term debt, and retained profit.

The aftereffects of this examination affirm that the profit strategy doesn't have a generous association with the capital structure of the non-financial organizations recorded in the NSE. This was upheld by research which recommended that the factors analyzed indicated that there is no huge connection between the profit payout ratio and capital structure, along these lines reasoning that the organization's long-term debt, value capital, and held income are not huge for the profit strategy.

The report affirms the consequences of an investigation led by 16 organizations recorded in the Allied and Industrial Sectors of the NSE that there is a solid connection between the profit payout ratio and the influence proportion, while there is a helpless connection between the profit payout proportion and the held income. This investigation shows that while the driving factors

that included resource returns, market capitalization, cost to-book proportion, and offer cost considerably impact the dividend payout ratio, the factors involving capital structure segments that included long term debt, retained income, and value capital are not the critical drivers of profit strategy.

5.4 Recommendations

Controlling factors, including market capitalisation, return on capital, share price and price-to-book ratio, have been reported to have a statistically significant impact on the dividend payout ratio. It is also advised that the policies of companies should be geared towards market capitalisation, the share price, the return on capital and the price-to-book ratio, since these are factors that will have an effect on policy of dividends.

The study suggests that companies adopt sustainable dividend policies, combining dividend payments with other conflicting goals that might take over the resources of firms. Dividend policies based on weak structures can lead to conflicting interests between shareholders and management, which in turn, can adversely affect the performance of the company.

The study shows that the capital structure factors retained earnings, long-term debt and equity capital do not greatly impact the dividend payout ratio of the company's dividend policy. Firms can also focus on controlling dividend policies by tracking market capitalization factors, the price-to-book ratio and the return on assets.

5.5 Limitations of the Study

Among the limitations encountered was the size and scope of the analysis, which included only non-financial companies on the NSE list. As a result, companies with other capital structures that could yield different outcomes were not considered.

Due to time constraints, the researcher could not have carried out an exploratory analysis to ascertain cause and effect of the relation between the dividend policy and its determinants. An exploratory analysis would have provided the researcher more insight into the long-term sustainability of the capital structure.

Aspects of a qualitative nature have not been captured by secondary results, which are also capable of impacting firms' dividend policies. These qualitative dimensions include good customer service and good corporate governance.

5.6 Suggestions for Further Research

This report suggests that further studies be considered which will focus on non-listed companies to decide how their capital structure will affect their dividend policies. This will help to compare the dividend ratios of both listed and non-listed companies. Such a study could concentrate on medium and large firms in the county of Nairobi, with firms registered and in county records.

The study proposes a comparison of the capital structure of the non-financial companies listed in the NSE and those not listed and the impact of the capital structure on the company's dividend policies. Non-listed companies could range from small to medium-sized to large firms. Such a study will recognise variations in capital structures as well as dividend policies between listed companies in the NSE and non-NSE companies. Future research may also be applied to businesses around the world to ensure that data is collected and analysed across the country.

The researcher also suggests further research to test and evaluate other variables that could affect dividend policies such as the age of the company, investor opinions, and management of NSE-

listed firms, with potential studies being performed on both listed and non-listed firms for a period longer than the 10 years used for this analysis. Other methods of evaluation may be used in future research to certify the dividend payout ratio determinant.

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APPENDIX

LIST OF NON-FINANCIAL FIRMS LISTED ON THE NSE IN KENYA

SOURCE: NSE

1. Eaagads Ltd
2. Kakuzi
3. Limuru Tea Co. Ltd
4. Sasini Ltd
5. Williamson Tea Kenya Ltd
6. Car and General (K) Ltd
7. Express Ltd
8. Kenya Airways Ltd
9. Longhorn Publishers Ltd
10. Nairobi Business Ventures Ltd
11. Nation Media Group
12. Sameer Africa PLC
13. Scangroup Ltd
14. Standard Group Ltd
15. TPS Eastern Africa (Serena) Ltd
16. Uchumi Supermarket Ltd
17. Athi River Mining
18. Bamburi Cement Ltd

19. Crown Paints Kenya PLC. 0rd

20. E.A.Cables Ltd

21. E.A.Portland Cement Ltd

22. KenGen Ltd

23. Kenya Power & Lighting Co Ltd

24. Total Kenya Ltd

25. Umeme Ltd

26. Britam Holdings Ltd

27. CIC Insurance Group Ltd

28. Jubilee Holdings Ltd

29. Kenya Re-Insurance Corporation Ltd

30. Liberty Kenya Holdings Ltd

31. Sanlam Kenya PLC

32. Centum Investment Co Ltd

33. Home Afrika Ltd

34. Kurwitu Ventures

35. Olympia Capital Holdings ltd

36. Trans-Century Ltd

37. Nairobi Securities Exchange Ltd

38. B.O.C Kenya Ltd

39. British American Tobacco Kenya Ltd

40. Carbacid Investments Ltd

41. East African Breweries Ltd

42. Eveready East Africa Ltd

43. Flame Tree Group Holdings Ltd

44. Kenya Orchards Ltd

45. Mumias Sugar Co. Ltd

46. Unga Group Ltd

47. Safaricom PLC

DATA COLLECTION SHEETS

(2010 – 2019)

COMPANY	**Dividend Payout Ratio = DPS/EPS**	**Long Term Debt Ratio**	**Equity Level**	**Retained Earnings**
Eaagads Ltd				
Kakuzi				
Limuru Tea Co. Ltd				
Sasini Ltd				
Williamson Tea Kenya Ltd				
Car and General (K) Ltd				
Express Ltd				
Kenya Airways Ltd				

Longhorn Publishers Ltd				
Nairobi Business Ventures Ltd				
Nation Media Group				
Sameer Africa PLC				
Scangroup Ltd				
Standard Group Ltd				
TPS Eastern Africa (Serena) Ltd				
Uchumi Supermarket Ltd				
Athi River Mining				
Bamburi Cement Ltd				
Crown Paints Kenya PLC. 0rd				
E.A.Cables Ltd				
E.A.Portland Cement Ltd				
KenGen Ltd				
Kenya Power & Lighting Co Ltd				
Total Kenya Ltd				
Umeme Ltd				
Britam Holdings Ltd				
CIC Insurance Group Ltd				
Jubilee Holdings Ltd				
Kenya Re-Insurance Corporation Ltd				
Liberty Kenya Holdings Ltd				

Sanlam Kenya PLC				
Centum Investment Co Ltd				
Home Afrika Ltd				
Kurwitu Ventures				
Olympia Capital Holdings ltd				
Trans-Century Ltd				
Nairobi Securities Exchange Ltd				
B.O.C Kenya Ltd				
British American Tobacco Kenya Ltd				
Carbacid Investments Ltd				
East African Breweries Ltd				
Eveready East Africa Ltd				
Flame Tree Group Holdings Ltd				
Kenya Orchards Ltd				
Mumias Sugar Co. Ltd				
Unga Group Ltd				
Safaricom PLC				

(2010 – 2019)

COMPANY	Price to Book Ratio	Market Capitalization	Return on Assets
Eaagads Ltd			
Kakuzi			
Limuru Tea Co. Ltd			
Sasini Ltd			
Williamson Tea Kenya Ltd			
Car and General (K) Ltd			
Express Ltd			
Kenya Airways Ltd			
Longhorn Publishers Ltd			
Nairobi Business Ventures Ltd			
Nation Media Group			
Sameer Africa PLC			
Scangroup Ltd			
Standard Group Ltd			
TPS Eastern Africa (Serena) Ltd			
Uchumi Supermarket Ltd			
Bamburi Cement Ltd			
Crown Paints Kenya PLC. 0rd			
E.A.Cables Ltd			

E.A.Portland Cement Ltd			
KenGen Ltd			
Kenya Power & Lighting Co Ltd			
Total Kenya Ltd			
Umeme Ltd			
Centum Investment Co Ltd			
Home Afrika Ltd			
Kurwitu Ventures			
Olympia Capital Holdings ltd			
Trans-Century Ltd			
Nairobi Securities Exchange Ltd			
B.O.C Kenya Ltd			
British American Tobacco Kenya Ltd			
Carbacid Investments Ltd			
East African Breweries Ltd			
Eveready East Africa Ltd			
Flame Tree Group Holdings Ltd			
Kenya Orchards Ltd			
Mumias Sugar Co. Ltd			
Unga Group Ltd			
Safaricom PLC			