

Determinants of Dividend Payout Policy by Listed Companies Listed In Nairobi Securities Exchange, Kenya

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Abstract: Dividend policy is one of the most important financial decisions that company managers have to make a wise decision. Dividend policy has an impact on the prices of shares and therefore returns to investors, the financing of firm's growth and the equity base by retaining finances together with its gearing and leverage. The aim of the study was to find out the determinants of dividend payout policy by listed companies: a case study of Nairobi Securities Exchange. The study was specifically sought to establish the extent to which investment decisions determine dividend payout of listed companies in Nairobi Securities Exchange. The study was guided by Modigliani-Miller Hypothesis theory. The study adopted a survey case study research design. The target population for this study was managers, middle level managers and other employees from financial firms that were listed on the Nairobi Securities Exchange as at June 2014 totaling to 91 respondents. For the purpose of getting a representative sample, the researchers used purposive sampling method to sample branch managers and middle level managers and used the Fisher, formula to get a sample of 91 respondents. Data was collected using questionnaire which has a 5 point Likert scale structural questionnaire. To determine the validity of the questionnaire items, the questionnaires' content, structure and sequence was appropriately amended to remove any ambiguities. Reliability was tested through test-Retest technique through administration of the developed questionnaire. The data was then entered into the SPSS Statistical Package version 20 for Windows data and the results were presented using descriptive statistics that include frequency distribution tables, percentages and other measures of central tendency such as means and standard deviations. The study findings indicated that there is a significant relationship between investment decisions and dividend payout policies. The study recommended that: managers of listed companies in Nairobi Securities Exchange should ensure effective access to information about the firm's future prospects than potential investors, they should use changes in dividends as a vehicle to communicate information to the financial market about a firm's future earnings and growth.

Keywords: Investment Decisions and Dividend Payout Policy

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I. Introduction

In Kenya, the Nairobi Securities Exchange formerly the Nairobi Stock Exchange is the only firm mandated to list companies. The NSE was established in 1954 and currently is the leading securities exchange in East and Central Africa. In Africa, the NSE is the largest securities exchange in terms of trading volumes and fifth in terms of market capitalization as a percentage of GDP (CMA Bulletin, 2009). The products traded at the NSE are shares (equity) and bonds (debt/leverage instruments) which are financial instruments that are jointly referred to as securities. NSE facilitates investments and savings by bringing together borrowers and lenders. Currently (as at 6th June 2014), a total of sixty-one firms are listed at the NSE spanning eleven market sectors: commercial sector, agricultural sector, and services like telecommunication and technology, automobiles and accessories sector, insurance, investment sector, manufacturing and allied, banking sector, construction and allied, energy sector, and growth enterprise market segment (NSE website)

Dividend policy is one of the most important financial decisions that company managers have to make a wise decision (Baker and Powell, 1999). Dividend policy has effect on the prices of shares and therefore returns to investors, the financing of firm's growth and the equity base by retaining finances together with its gearing and leverage (Kinyua, 2013.) The dividend misery, both as a matter of policy share value and enhancing feature is one of the most difficult matters of current financial economics. Mizuno (2007) in his study conquers to the fact that a firm must pay dividends to its shareholders if the firm didn't identify viable investments which can bring higher returns.

Academicians have come up with many dividend theories (Stulz, 2000; Pandey, 2003; DeAngelo et al., 2006). These theories sees dividends as either relevant or irrelevant to the value of the firm. Miller and Modigliani theory (Stulz, 2000) suggests that in a capital market that there are no deficiencies like taxes, transaction costs, unequal information and costs like agency, company's dividend policy is not relevant for the

value shares in the market. It therefore suggests that financial managers cannot change the value of their firms by altering their dividend policy. Their findings indicate that firm value is improved by investing in dynamic assets and not by income distribution to shareholders (Stulz, 2000). According to this theory, dividend policy is not relevant and a rational investor does not have a preference between dividends and capital gains. Many researchers have come up to criticize the theory developed by Miller and Modigliani claiming that it is not realistic since it has many imperfections (Dhanani, 2005)

Although companies can change their dividend policy over time, it is recommended that each company establishes and sticks to its own dividend policy. Lintner (2001) contend that firms follow well-considered payout strategies. He further observes that corporate managers are averse to changing the dollar amount of dividends in response to changes in earnings, particularly when earnings decline. This is so because changes to a dividend policy can inconvenience existing stockholders, send unintended signals or convey the impression of dividend instability, all of which can have negative implications for stock prices particularly when lower or no dividends are paid. Managers should therefore establish a stable cash dividend policy to avoid sending negative information to investors (Escherich,2000).

Additionally, companies must meet their debt obligations before declaring dividends because interest on borrowed funds must be paid whether the company makes profits or not. Nevertheless, shareholders are entitled to a share of company profits as a reward for the risk they have undertaken when investing in the company. The Board of Directors therefore, should balance these two demands on profit and recommend an appropriate dividend. McMenamin (1999) defined dividend policy as a firm's plan of action adopted by its directors whenever the dividend decision has to be made. Pandey (2010) defines dividend policy as the practice that management follows in making dividend payout decisions out of a firms earnings by determining how much dividend to pay to shareholders and how much to reinvest. He argued that a perfect dividend policy is the one that strikes a balance between current dividends and future growth. Dividend policy is therefore, the division of earnings between shareholders and the firm in form of reinvestment.

Researchers have different views about the determinants of dividend payout and how it affects the long term share prices. Dhanani, (2005) a researcher who adopted a survey design to get attitudes and managerial views of company managers concerning determinants of dividend payout policy established that dividend policy acts to enhance market value of the company. However, Farsio et al., (2004) argues that experimental studies that put an end to a causal relationship is found between firms, liquidity, profitability, investment opportunities and dividend payout are based on short periods and hence misleading to potential investors. In this case therefore, dividends have no control to predict future earnings. This study therefore tries to establish the determinants of dividend payout by companies listed in the Nairobi securities exchange.

1.2. Statement of the Problem

Dividend policy in many companies has over time been an issue especially in company finance. Many scholars have come up with many theories to explain the importance of dividend payout policy and if it actually determines the value of the firm. There has not been a mutual agreement (Stulz, 2000; Pandey, 2003; De Angelo et al., 2006). Researchers Amidu (2007), Lie (2005), Zhou & Ruland (2006), Howatt et al. (2009), continue to find out about on the relationship between dividend payout policy and profitability of firms listed in Nairobi securities exchange.

Although, literature on dividend payout policy is extensive, majority of studies have focused on the investment choices of small and medium enterprises. Little has been done on the factors determining dividend payout of financial institutions; a study by Amidu (2007) shows that dividend policy determines the performance of a company as it is measured by firm's profitability. The findings indicated a positive and significant relationship between return on earnings, return on assets, sales growth and dividend policy. Lie (2005) argues that there is little sign that firms paying dividends rapidly improve performance. Many studies (Arnott & Asness 2003; Farsio et al 2004 and Nissim & Ziv 2001) have been regarding dividend policy, especially in non financial sectors. However, these studies did not look at how investment decisions, company size, company earnings and growth opportunities determine dividend payout policies. This leaves a wide knowledge gap that this study seeks to fill in. This study therefore seeks to find out the factors determining dividend payout policy by financial institutions listed in NSE.

II. Literature Review

2.1 Review of Theories

2.1.1 Modigliani-Miller Hypothesis

Modigliani and Miller (M-M) hypothesis argues that the policy on dividend of a firm is irrelevant; that is it do not affect the firm's value. The theory asserts that the firm's value is determined by the earning power of firm's assets and that the way which the firm's earnings flow is divided between dividends; the retained earnings do not affect the company's value.

According to this theory, there is an assumption that firms operate in perfect capital markets meaning the availability of information to all without costs incurred, the absence of all kinds of transaction costs and generally the inability of individual investors to cause changes on the price of shares in the market. It also assumes that all investors are rational meaning that shareholders want to maximize their wealth and are uninterested in dividends and share price appreciation to maximize their wealth. Furthermore, it is believed that there is no existence of taxes between retained earnings and dividends so as to allow the company to come up with appropriate dividend policy. Lastly, it is assumed that the investment policy of the firm is fixed and hence the shareholders will be indifferent between dividends and retention of earnings.

Investment decision of a firm has two alternatives: it may retain its earnings to finance the investment projects, or it may distribute its earnings as dividends and raise an equal amount by issuing new shares to finance the investments. If dividends are paid to the shareholders, share price in the market tends to increase. On the other hand, shares cause a reduction in the value of the shares.

In M – M assumptions, r will be equal to the discount rate and identical for all shares and because of this, the price of each share must be adjusted so that the rate of return will be equal to the discount rate and be identical for all shares at that dividend period.

Thus, the rate of return for a share held for one year may be calculated as follows:

$$r = \frac{D + (P_1 - P_0)}{P_0} = \frac{\text{Dividends} + \text{Capital gains (on loss)}}{\text{Purchase price}}$$

Where P^0 is the market price per share at time 0, P_1 is the market price per share at time 1 and when D is dividend per share at time 1. As stated by M – M, r should be equal for all shares at all times. In a case that it is not equal, returns with low yields in shares will have to be sold by investors who in order to purchase high return yielding shares.

This is a process that will tend to reduce the price of shares that give low returns yields and to increase the prices of the shares that give high return. This will continue until the differences in rates of return are removed. This discount rate will also be equal for all firms under the M-M assumption since there are no risk differences.

From the above M-M basic principle one can derive the valuation model as follows:

$$P_0 = \frac{D_1 + P_1}{1+r} \quad P_0 = \frac{D_1 + P_1}{1+K} \quad R=K$$

Multiplying both sides of equation by the number of shares outstanding (n), we obtain the value of the firm if no new financing exists.

$$V = np_0 = \frac{N(D_1 + P_1)}{1+K}$$

If the firm sells m number of new shares at time 1 at a price of P^1 , the value of the firm at time 0 will be

$$np_0 = \frac{ND_1 + (n+m)p_1 - mp_1}{1+k}$$

The above equation of valuation allows for the issuance of new shares compared to Walter's and Gordon's models. On the other hand, a firm can pay dividends and raise funds to finance the optimum investment decision. It can be concluded that dividend and investment policies are not confounded in M – M model, like Walter's and Gordon's models do.

Modigliani and Miller (M-M) hypothesis theory was criticized in that there will be no difference to the M-M hypothesis if debt capital is used for financing investments instead of the new block of equity. This is because of the difference in leverage, the cost of capital is independent of leverage and the actual cost of debt is the same as the actual cost of equity financing. This theory relies on the final analysis, on whether external and internal financing are equal each thus the validity of the assumptions can be asked.

The market deficiency shows that investors will opt the firm to retain earnings to finance other investments in the future rather than raise the amount for the same externally. Therefore the assumption regarding taxation is unrealistic in this case. In reality, taxes exist and there is tax difference between earnings retained and dividends to be paid by a company. The presence of a tax differential which has a favorable bias on capital gains at the same time dividends vitiates the validity of the M-M hypothesis.

The validity of the M-M hypothesis is also not clear under conditions of uncertainty. According to Modigliani and Miller, a dividend policy is as irrelevant under conditions of uncertainty as it is when perfect certainty is assumed. According to them, when two firms are identical in terms of business risk, prospective future earnings and investment policies, the market prices of their shares must also be the same shareholders have preference to dividends rather than capital gains. According to this theory, investors are risk averse and they prefer near dividends to future dividends and hence determine the value of the firm.

2.1.2 Dividend relevance: Walter's model.

This model is one of the earlier theoretical works that clearly shows the importance of the relationship between the firm's rate of return and its cost of capital. Walter's and James' theory (1993) states that dividend payout policy in many occasions determine the value of the firm. It is quite useful to show the determinants of dividend payout policy on all equity firms under different assumptions about the rate of return or companies profitability. However, the simplified nature of the model can lead to conclusions which are not true for the model. Walter's model is not free of assumption rather based on certain assumptions as follows: internal financing, constant return on investment, retention and cost of capital. It therefore assumed that all investments of a company are financed by the firm through retained earnings. The model does not consider the importance of an optimum capital structure because even if a firm has achieved an optimum capital structure, the structure still has to be maintained in future financing to get the merits of optimum capital structure. In this case Walter's model therefore will not have varied applications.

Walter in his argument stated that the shares of the firm, where rate of return is greater than capital ($r > k$) will have the highest market value if dividends are not declared at that particular dividend period. Correspondingly, where rate of returns are less than capital ($r < k$) declaration of the highest possible dividends will lead to the maximum price of its shares. Both these situations are abnormal and not practical in real life situation.

It is also assumed that the internal rate of return will always remain constant. In real world situation this is not true as rate of return generally declines when more investment decisions are considered by the firm. The internal productivity of the retained earnings is also not precisely quantifiable. Lastly, the assumption that cost of capital also remains constant may not hold in real world. If the risks of the firm changes, the cost of capital also changes and therefore this assumption that the cost of capital will remain constant is ignored due to its effect of risk on the overall value of the firm.

Professor James E. Walter argues that the choice of dividend policies almost always determines the value of the firm. His model shows clearly the importance of the relationship between the firm's internal rate of return (r) and its cost of capital (k) in determining the dividend policy that will maximise the wealth of shareholders. Walter's formula to calculate the market price of each share (P) is stated as follows:

$$P = D/K + r(E-D)/K$$

This equation clearly shows that the market price per share is the sum of the present value of two sources of income:

- i) The present value of an infinite stream of constant dividends, (D/K) and
- ii) The present value of the infinite stream of stream gains. [$r(E-D)/K$]

2.1.3 The bird in the hand theory

One reason given for the view that capital gains are preferred by investors to capital gains is that dividends are certain whereas capital gains are uncertain, Bratton and William (2005). Proponents of this view of dividend policy felt that risk averse investors will therefore prefer the former. This argument is flawed. The simplest counter-response is to point out that the choice is not between certain dividends today and uncertain capital gains at some unspecified point in the future, but between dividends today and an almost equivalent amount in price appreciation a day. In responding to this argument the firm's value is determined by the cash flows from its operational projects. An increase in firm's dividends and constant investment policy will replace the dividends with new securities issued.

2.2. Over view of dividend payout policy

A dividend policy can be defined as an action plan adopted by directors of a firm in making decisions regarding the essential matters of organization. Dividend policy determines the distribution of the amount of earnings between shareholders (dividend payment) and the company (reinvestment). Dividend policies are designed to suit each firm's requirements important to achieve firm set objectives. The main methodologies are stable and predictable, continuous payout. Dividend policies help a company to give varied payment of dividend from time to time and annually depending on the firm's cash flows and the need to finance its operations (Pandey, 2005).

Payment of dividends is the same as the difference between the actual earnings available and the aggregate of earnings retained by a firm needed to finance the optimal capital budget of a firm. Myers (1984)

states that dividend will only be paid by firms from remaining equity after all payments capital requirements are met. Companies using this policy ought to finance new projects through internal sourced funds and therefore dividend payment decision is made after all expenses. Fluctuation of dividends from time to time is expected according to this policy hence making investors uncertain and finally increasing the cost of capital. It is believed therefore that this policy best suits growth companies with large growth prospects (Myers, 1984).

The policy requires payment of a certain continuous amount of earnings to be given to the shareholders for each dividend period and therefore since there is fluctuation of company earnings from time to time dividend per share will not be constant. There is a problem however, when earnings of a company and even worse when the company makes losses leading to low or no dividends. This situation can make investors uncertain (Pandey, 2005).

This involves a firm paying certain amount of dividend as per each share in each dividend period hence increasing the dividends constantly over time. It reduces uncertainty on dividends to be issued in future since dividends can be easily predicted predictable. At times if the management is satisfied with new higher level of earnings that it is permanent therefore they can increase the amount of dividends to be paid to investors (Lintner, 1956). Many firms prefer more stable dividends policies.

This policy involves a firm paying low constant dividends accompanied by an extra dividend if the earnings of a company are good in a given time when dividends are to be declared. This brings flexibility to a firm because it may fix low regular dividends at ranks which are sustainable even when it makes losses. This policy creates and maintains confidence with investors because they are certain of the low regular dividend while the extra dividend allows shareholders to divide earnings from the firm. This dividend policy is popular in many companies that experience recurrent changes in earnings and with highly volatile (Mathur, 1979).

2.3 Dividend payout and investment decisions

The dividend irrelevance proposition suggests that a firm's dividend policy has no effect on the value of the firm in a perfect and complete market (Stulz, 2000). Financial managers therefore, cannot alter the investment decisions of their firms by changing their dividend. The market position or observation is that a change in dividend policy is valued by the market. The valuation of firms also focuses on the relationship between dividend changes and investment decisions, that is, future earnings or dividends. If a firm's dividend policy can provide additional insight into the cash flows, then a more reliable estimate of value can obtained (Howatt et al., 2009).

A study by Dhanani (2005) revealed that dividend policy is important in maximizing shareholder value. A firm's dividend policy can influence one or more of imperfections in the real world such as information asymmetry between managers and shareholders; agency problems between managers and shareholders; taxes and transaction costs and in turn, enhance the firm's investment decisions (Dhanani, 2005). In an imperfect market setting, dividend can influence shareholders' wealth by providing information to investors or through wealth redistribution among shareholders.

A firm's dividend policy can influence its capital structure or investment decisions and in turn, enhance the firm's value to shareholders. Shareholder's wealth is maximized through effective investment strategies, financed by an optimal capital structure. Dividend policy can be viewed as a result of the investment and financing decisions since the company needs to decide how to distribute wealth generated from these strategies (Dhanani, 2005). The relationship can also be inverse, where dividend policy influences a firm's capital investment and structure decisions and in turn its value enhancing properties. Aivazian et al., (2003) state that since corporate investment is sensitive to financial constraints, a firm's dividend decisions, which directly affects its free cash flow, could affect its investment. This arises when a firm's dividend policy viewed as a residual to its capital structure and investment decisions; internally generated cash flows from existing investments will be used to optimize a the firm's capital structure and future capital investment decisions and any surplus returned to shareholders as dividends (Dhanani, 2005).

The pecking order theory of capital structure proposes that companies will prefer internally generated cash flows to external funds and therefore pay low dividends. It therefore suggests that firms that pay high dividends experience low growth which contradicts studies by Zhou & Ruland (2006) and Arnott & Asness (2003). The equity component of a firm increases when more earnings are retained. However, if a firm has a large payout, financing may need to come from debt. An increase in debt without a proportionate increase in equity may result in a deviation from a firm's optimal capital structure (Baker, 2001). A flexible dividend policy may also serve to optimize firms' capital structure, a residual dividend policy, for example, may enable firms access external sources of funds such as debt. Lenders in this case will not view dividends as a fixed and regular payment which may adversely affect the firm's cash flows. They will thus be more willing to give debt to firms. A firm's dividend policy can reduce agency problems between managers and shareholders and, in turn, enhance the firm's investment decisions (Dhanani 2005). Dividends are a way to solve agency problems where managers can use excess free cash flows to pursue their own interests. By paying dividends to shareholders, free cash

flows are reduced and thus managers have no opportunity to make suboptimal investments (DeAngelo et al., 2006). A firm's value and performance is therefore enhanced through higher returns from optimal investments. Dividend payments force firms to raise funds externally for new investments, which in turn increases the level of external monitoring of corporate activities by the capital market regulator (DeAngelo et al., 2006)

Different situation of shareholders and investors takes into consideration a firm's dividend policy and hence affects the value of the firm (Dhanani, 2005). Firms can come up with dividend policy that meet shareholders needs depending on preference shares. Information on future earnings of a firm is not provided by dividends only but also from firms with desired and preferred dividend policy. Mundati, Z. (2013) stated that firms articulate dividend policy to respond dividends of shareholders preference. Some shareholders can prefer cash dividends have a preference for cash dividends, dividend stability and others would prefer capital gains attained through re-investment. The bird in hand theory explains that investors are certain and prefer dividend to capital gains. Individual investors' tax preferences can influence their dividend preferences. Investors fear high taxes that they prefer low dividend payouts in a bit to decrease income that can be taxed and hence opt for capital gains. Kenyan tax system is at the rate of 5% for individuals and exemption is given for capital gains (Income Tax Act, 2010). A firm with high share prices have the ability to meet individual needs of investors and hence increase the value of the firm. However, Myers, S. & Majluf, N. (1984) argues that investors move to firms that pay dividends to meet their individual needs and therefore no firm should be affected by dividend policy.

It is therefore important to note that a firm which does not pay dividends should not be penalized for its decision. On the other hand high dividend paying firms should not have a high value because investors prefer dividends. Firms can be rated in terms of value fairly regardless of the dividend policy

H₀₁. There is no significant relationship between investment decisions and dividend payout policy of listed companies.

III. Materials And Methods

This study adopted a survey study research design. The population for this study was financial firms that were listed on the Nairobi Securities Exchange as at 2014/2015 financial year. The study used 5-point likert questionnaires as data collection instruments. The Cronbach's coefficient alpha was applied on the results obtained to determine how items correlate in the same instrument. Cronbach's coefficient Alpha of more than 0.7 was taken as the cut off value for being acceptable which enhanced the identification of the dispensable variables and deleted variables. Data was analyzed by use of Descriptive statistics (frequencies, percentages, means and standard deviation) was used to analyse data and inferential statistic multiple regression was also used to analyze the interdependency of variables, which may not otherwise be obvious.

IV. Results And Discussion

4.1 Dividend Payout and Investment Decisions

The study sought to establish the extent to which investment decisions determine dividend payout policies of listed companies in Nairobi Securities Exchange. The findings are tabulated in table 4.1 as follows:

Table 4.1 Dividend Payout and Investment Decisions

Variables	N	SA	A	D	SD	M	SDv
Return on capital are employed	83	47.4%	42.7%	8.3%	1.6%	1.641	0.702
Return on shareholders' Fund are adequate	83	56.3%	31.3%	5.2%	7.3%	1.635	0.882
Return on Total Assets are sufficient	83	24.5%	51.6%	20.2%	3.7%	2.032	0.773
Earnings per share are adequate	83	31.1%	44.2%	19.5%	4.7%	2.026	1.061
Return on equity is sufficient	83	7.9%	24.2%	61.1%	6.8%	2.668	0.721

The study found out that investment decisions determine dividend payout policies of listed companies in Nairobi Securities Exchange. The response that return on capital are employed determined dividend payout was rated at 90.1%, return on shareholders' Fund are adequate 87.6%, return on Total Assets are sufficient 76.1%, Earnings per share are adequate 75.3%, and return on equity is sufficient was rated at 32.1%.

On a five point scale these findings were supported by an average mean of 2.0004 spread at a standard deviation of 0.828. This indicates that all of the above variables are determinants of dividend payout policies, hence agrees with the reviewed literature that dividends are important to shareholders and potential investors in showing the earnings that a company is generating. Healthy dividends payouts thus indicate that companies are generating real earnings (Baker, 2000). The finding is also concurrent to that of Nissim & Ziv (2001). Who noted that high dividend payout firms tend to experience strong future earnings but relatively low past earnings growth despite market observers having contradicting view. The findings of another study done by Arnott & Asness (2003) also revealed that company earnings are associated with high rather than low dividend payout. They

concluded that historical evidence strongly suggests that expected company earnings is fastest when current payout ratios are high and slowest when payout ratios are low.

4.2 Correlations

Pearson correlation analysis was conducted to examine the relationship between the variables. The measures were constructed using summated scales from both the independent and dependent variables. From the study results it is noted, the correlation tables were at 99% level of confidence, since 1 percent change in investment decisions leads 89.9% change in Dividend payout policy. From our finding it clearly indicates that investment decisions had a high level of association between dividend payout policies. This is shown in Table 4.2 below.

Table 4.2 correlation analysis

		Investment decisions	Dividend payout policy
Investment decisions	Pearson Correlation	1	.899**
	Sig. (2-tailed)		.000
Dividend payout policy	Pearson Correlation	.899**	1
	Sig. (2-tailed)	.000	
	N	83	83

** Correlation is significant at the 0.01 level (2-tailed).

4.3 Testing of Hypothesis

From the study a multiple linear regression model was used to investigate the study hypotheses as shown in table 4.3 below

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.878	0.642		1.010	.316
	Investment decisions	0.091	0.050	0.118	0.052	.000

Results from the regression model above indicated that there was a significant relationship ($p = 0.000$) between investment decisions and dividend payout policy. This was interpreted to mean that dividend payout policy can influence its capital structure or investment decisions and in turn, enhance the firm's value to shareholders. These findings concur (Dhanani, 2005) who states that Dividend policy can be viewed as a result of the investment and financing decisions since the company needs to decide how to distribute wealth generated from these strategies. The relationship can also be inverse, where dividend policy influences a firm's capital investment and structure decisions and in turn its value enhancing properties.

V. Conclusion

The study concluded that investment decisions determine dividend payout companies it ensures that return on capital are employed, return on shareholders' fund are adequate, return on Total Assets are sufficient, earnings per share are adequate and return on equity is sufficient hence dividend payout policy can influence its capital structure or investment decisions and in turn, enhance the firm's value to shareholders.

5.1 Recommendation of the Study

Based on the findings of this study, the following recommendations were made:

- i. Managers of listed companies in Nairobi Securities Exchange should ensure effective access to information about the firm's future prospects than outside investors, they should use changes in dividends as a vehicle to communicate information to the financial market about a firm's future earnings and growth, this will help outside investors who may perceive dividend announcements as a reflection of the an assessment of a firm's performance and prospects
- ii. Listed companies in Nairobi Securities Exchange should ensure stable dividend policy which will helps in ensuring that a firm can continue fulfilling to shareholders what they require which is a steady source of income for some of the shareholders that will not be interrupted thus increasing the company size.
- iii. Listed companies in Nairobi Securities Exchange should ensure continued payment of dividends to its shareholders and also keep an eye on their earnings as this is what leads to what amount of dividends to be given to the shareholders and also indicates the stability and growth of future earnings.
- iv. Lastly listed companies in Nairobi Securities Exchange should stabilize dividend distributions and thus provide consistency in the pattern of dividend action thus help minimize adverse stockholder reactions. This increase in future dividend payment hence ensuring firms growth opportunities

5.2 Suggestion for Further Research

In order to allow for thorough investigation, this study suggests that future studies be done on the effectiveness of firms' growth opportunities on the dividends to be payed to shareholders. This will make information available for growing and expanding of listed companies in Nairobi Securities Exchange, the researcher also suggests that future study be done on the measures to promote increase in firm size and its impact on dividend payout to shareholders. Lastly since the study excluded listed companies in Nairobi Securities Exchange from other sectors, the study suggests that same study be done but on the excluded companies to ensure thorough investigation on the variables of the study

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