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Effect of Firm Characteristics on Dividend Policy in Firms Listed in Nairobi Security Exchange, Kenya

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Abstract

The main aim of the paper was to establish the mediating effect of firm characteristics on dividend policy. The study is informed by Catering theory of dividends. This study was informed longitudinal research design. The target population comprising forty three (43) banks will be retrieved from the Central Bank of Kenya (CBK) and Nairobi Securities Exchange (NSE). Each bank was analyzed annually for 10 years giving 430 firm year observations. A census approach was used to include commercial banks registered with the CBK and banks listed in the NSE. The data collection instrument to be used in this study was content/document analysis. a panel data framework using fixed and random effect was used to test the hypotheses. Findings from random model showed that firm portability, ownership, leverage and liquidity had significant effect on dividends policy. Thus, based on the evidence from study findings, firms with higher profitability and higher liquidity will pay more dividends. In addition, banks with high level of ownership concretion and liquidity have high probability for paying dividends. The key contribution of this study is that it helps shed additional light on the inconclusive issues regarding the effects of ownership structure, profitability, liquidity and leverage on dividend policy in banks. In addition, Financial managers in banks can use the findings to improve the payment of dividends, investment policy and capital budgeting decisions of banks. Consequently, government and relevant regulatory agencies would formulate policies and regulatory framework that take cognizance of the influence of firm characteristics on dividend policy. This is the first study that investigates ho bank specific characteristics affect the propensity to pay dividends and dividend payout along with long-term relationships in a single study

Keywords: Profitability, ROA, Liquidity, Dividends Policy

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