DETERMINANTS OF DIVIDEND PAYOUT POLICY IN PUBLIC LTD BANKS IN KENYA: A CASE STUDY OF CFC STANBIC BANK

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ABSTRACT

Dividend policy has been analyzed for many decades, but no universally accepted explanation for companies observed dividend behavior has been established. Many theories and models have been put forth to examine the numerous facets of dividend study. This study sought to establish the determinants of dividend payout policy in public limited banks by examining the effect of liquidity, profitability, firm size and leverage on dividend payout. The study adopted a descriptive research design. The target population of the study was CFC Stanbic Bank where secondary data was for a period of eleven years (2003-2013). The data was analyzed qualitatively as well as quantitatively using both descriptive statistics and inferential statistics. The results showed that there liquidity was negatively (β = -1.0094) and significantly (p-value = 0.041) related to dividend payout while profitability was positively (β = 0.723) and significantly related (p-value = 0.018) to dividend payout. The results further indicated that firm size is positive (β = 0.794) and significantly (p-value = 0.034) related with the dividend payout. Finally, it was also inferred that leverage had a positive (β = 1.751) and significant (p-value = 0.004) relationship with the dividend payout. From the study findings it was recommended that; first, companies should maintain an optimal level of market liquidity as market liquidity has a negative influence on dividend payout. Secondly, since profitability has a positive and significant influence on dividend payout then companies should strive to engage in profitable ventures so as to be in a position to pay dividends to the shareholders. Lastly, the study recommends that leverage (debt/equity ratio) should be held at an optimal level so that the firm is in a position to pay its shareholders dividends, which is a return for their investments.

Key words: *Liquidity, Profitability, Firm Size, Leverage, Dividend Payout*

Introduction

Many dividend theories have been advanced. These theories explain how dividend decisions are arrived at and whether they have an impact on the firm value. Different perspectives to dividends have been suggested, these include the conservative group which believes that paying out dividend increases the value of a firm, the radical group which believes that it reduces the value of a firm while the ones in the middle believe that it has no effect on the value of a firm (Anupam, 2012). This was founded by Modigliani and Miller in 1961 who opposed the idea that dividend payment affects the value of the firm and thus in a perfect market dividend payment does not affect the value of a firm. This led Modigliani and Miller to argue that dividend was irrelevant.

Profits made by corporation can either be re-invested or be distributed as dividend to stockholders. Each company formulates its own policies as regards dividend. This mostly is determined by many factors and conditions prevailing during that period. Many corporations retain part of their earnings for capitalization purposes while others pay the remainder as dividend. Researchers have provided considerable attention and thought towards solving the dividend puzzle resulting in number of conflicting hypothesis theories and explanations (Alkuwari, 2009).

Khaled, Chijoke and Aruoriwo (2011) carried out a research on UK, the research showed that there exists a positive relationship between dividend yield and stock price volatility. The research also showed evidence that debt level; firm's size and earning explain price volatility as well. Zuriawati, Joriah and Abdul (2012) on their study of Malaysian construction companies found a negative insignificant relationship between dividend yield and share price volatility. Beabczuk (2004) while study dividend policies in Argentina established that larger and more profitable firms without good investment opportunities paid more dividends.

Ahmed and Javid (2009) while looking at the determinants of dividend payout in Karachi Stock Exchange concluded that market liquidity has a positive impact on dividend payout policy. They also concluded that more profitable firms pay larger dividends. Additionally, Okpara (2010) observed that earnings, current ratio (liquidity) and previous years dividends exerts a positive influence on the dividend pay-out ratio in Nigeria's firms.

Statement of the Problem

Dividend policy has been analyzed for many decades, but no universally accepted explanation for companies observed dividend behavior has been established. Brealey and Myers (2005) described dividend policy as one of the top ten most difficult unsolved problems in financial economics. This description is consistent with Black (1976) who stated that the harder we look at the dividend picture, the more it seems like a puzzle, with pieces that don't fit together. Chay and Suh (2008) stated that different countries have a unique regulatory environment, tax regime and rules on dividend policy. In Kenya few researches done focused on all firms listed on NSE but this research focus on CFC Stanbic bank. Njoroge (2001) examined the relationship between dividends payout and some financial ratio such as return on assets. Ngunjiri (2010) studied relationship between payment policies and stock price volatility and indicated that payment policies had a great impact on the stock price volatility. Ngobe*et al.* (2013) studied the relationship between dividend policy and stock price volatility for the period 1999-2008 at NSE using correlation and multiple regression analysis and

concluded that dividend yield has a positive relationship with price volatility while payout ratio has a negative relationship with price volatility, contrary to the findings of Ngunjiri (2010). These two studies only showed that payment policies had an impact on the stock price but did not suggest whether or not dividend payout itself had any relationship with profits of the companies. Mbuki (2010) studied factors that determined dividend payout ratio among SACCOs in Kenya. He found out that the dividends payout ratio was determined by different factors including availability of investments opportunities, availability of cash to pay the dividend and the sustainability of the dividend in the future. SACCOs being closely related to banks in terms of their business operations is comparable to this study. However, the study too did not mention any relationship between dividend payout and profits but only examined the different factors determining the dividend payout.Various studies done in Kenya (Njoroge, 2001; Ngunjiri, 2010; Ngobe et al., 2013 &Mbuki, 2010) focused on different contexts such as listed firms at NSE, SACCOs. Most studies have been done in developed countries (Pandey, 2001; Zuriawati, Joriah&Abdul, 2012; Khaled, Chijoke&Aruoriwo, 2011 and Goergen *et al*., 2004) but inadequate studies have been done in developing countries such as in Kenya. Therefore, the main purpose of this study is to investigate the determinants of dividend payout policy of public limited banks with special attention on CFC Stanbic bank in Kenya.

Research objectives

The general objective of this study was to establish the determinants of dividend payout policy in public limited banks.

Specific Objectives

i. To assess the influence of liquidity on dividend payout policy in CFC Stanbic bank
ii. To determine the effect of profitability on dividend payout policy in CFC Stanbic Bank
iii. To establish the effect of firm size on dividend payout policy in CFC Stanbic Bank
iv. To evaluate the effect of leverage on dividend payout policy in CFC Stanbic Bank

Methodology of the study

Research Design

The study adopted a descriptive research design. This design is best suited for the study as it appropriately described the intention of the study to present a situation on what people currently believe in, what people are doing at the moment and so forth. Sekaran and Bougie (2011) says that a descriptive study is undertaken in order to ascertain and be able to describe the characteristics of the variables of interest in a situation.

Study Population

A population refers to an entire group of individuals, events or objects having a common observable characteristic (Mugenda & Mugenda, 2003). The population for this study constituted of CFC Stanbic Bank. Secondary data was collected for 11 years (2003-2013).

Data Collection Method

This study used secondary data obtained from a review of documents, annual reports and financial statements of CFC Stanbic Bank and Central Bank Of Kenya. The selected period was year 2003 to year 2013 (11 years). The annual financial statements included the

statement of comprehensive income and financial position.

Data Analysis

Data analysis is the processing of data collected to make meaningful information out of them (Saunders, Lewis & Thornhill, 2009**).**The descriptive statistics included the use of mean, minimum, maximum and standard deviations while inferential statistics included the use or correlation and regression analysis. Regression analysis was used to demonstrate effect of independent variables on dependent variable. According to Mugenda and Mugenda (2003), the regression technique is used to analyze the degree of relationship between two variables. A multivariate regression model was used to link the independent variables to the dependent variable as follows;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \mu$$

Where Y represents Dividend Payout, X_1 represents Liquidity, X_2 represents Profitability, X_3 represents Firm Size, X_4 represents Leverage, β_0 represents the constant term and β_i= 1….4 measure of the sensitivity of the dependent variable (Y) to unit change in the predictor variables X_1, X_2, X_3 and X_4. Finally μ represents the error term which captures the unexplained variations in the model.

Results and Discussion

The analyzed data was arranged under themes that reflect the research objectives.

Descriptive Analysis

The descriptive statistics of the variables used in the study are presented in Table 1 below. Firm size which was measured as the total assets had a minimum value of 16430346 and a maximum of 150171015 with a standard deviation of 55102634.02. Liquidity computed as a ratio of current assets to current liabilities had a mean of 9.1563 with a minimum and maximum value of 4.2685 and 14.4510 respectively and had a standard deviation of 4.0427. Leverage's minimum and maximum values for the study period was 0.2601 and 0.9660 respectively, its mean was 0.8051 and this had a standard deviation of 0.2006. Profitability on the other hand had a minimum and maximum value of 0.0087 and 0.0339 respectively with a mean of 0.0236 which was associated with a standard deviation of 0.01. Finally, dividend payout had a minimum value of 7.00 while its maximum value was 32.050 percent while its mean was 20.159 and had a standard deviation of 8.687.

Table 1: Descriptive Statistics

Statistics	Firm Size	Liquidity	Leverage	Profitability	Dividend Payout
Minimum	16430346.00	4.2685	0.2601	0.0087	7.000
Maximum	150171015.00	14.4510	0.9660	0.0339	32.050
Mean	83527266.70	9.1563	0.8051	0.0236	20.159
Std. Dev.	55102634.02	4.0427	0.2006	0.0100	8.687

Inferential Analysis

The study adopted two key inferential statistics, that is, correlation analysis and regression analysis. Correlation analysis was performed so that the strength and direction of the relationship between variables could be established. Regression analysis on the other hand was adopted so that the quantum of variation in dividend payout as explained by the independent variables would be identified.

Correlation between Liquidity and Dividend Payout

The Table 2 below presents the relationship between liquidity and dividend payout where it was established that there is a negative*(r= -0.218)* relationship between liquidity and dividend payout. Further this relationship was established to be insignificant *(p-value=0.604)*.

Table 2: Liquidity and Dividend PayoutCoefficients Matrix

		Dividend Payout (DPO)	Liquidity
Dividend Payout (DPO)	Pearson Correlation	1.00	
Liquidity	Pearson Correlation	-0.218	
	Sig. (2-tailed)	0.604	1.00

* Correlation is significant at the 0.05 level (2-tailed).

Correlation between Profitability and Dividend Payout

The Table 3 below presents the relationship between profitability and dividend payout. The relationship is established to be positive *(r=0.381).* Moreover, the relationship is not statistically significant *(p-value = 0.352).*

Table 3: Profitability and Dividend PayoutCorrelation Coefficients Matrix

		Dividend Payout (DPO)	**Profitability**
Dividend Payout (DPO)	Pearson Correlation	1.00	0.381
Profitability	Pearson Correlation	0.381	1.00
	Sig. (2-tailed)	0.352	

* Correlation is significant at the 0.05 level (2-tailed).

Correlation between Firm Size and Dividend Payout

The Table 4 below presents the relationship between firm size and dividend payout which is established to be negative *(r= -0.776)* and strong. Moreover, the relationship is statistically significant *(p-value=0.023)*.

Table 4: Firm Size and Dividend PayoutCorrelation Coefficients Matrix

		Dividend Payout (DPO)	**Firm size**
Dividend Payout (DPO)	Pearson Correlation	1.00	
Firmsize	Pearson Correlation	-.776*	1.00
	Sig. (2-tailed)	0.023	

* Correlation is significant at the 0.05 level (2-tailed).

Correlation between Leverage and Dividend Payout

The Table 5 below presents the relationship between leverage and dividend payout. The relationship is established to be positive (*r=0.746*) and further that it is strong and that it is also statistically significant (*p-value=0.033*).

Table 5: Leverage and Dividend PayoutCorrelation Coefficients Matrix

		Dividend Payout (DPO)	**Leverage**
Dividend Payout (DPO)	Pearson Correlation	1.00	
Leverage	Pearson Correlation	.746*	1.00
	Sig. (2-tailed)	0.033	

* Correlation is significant at the 0.05 level (2-tailed).

Regression Analysis

The correlation analysis indicated the direction and strength of association between

variables while the regression analysis shows the quantum of variation in the dividend payout explained by liquidity, firm size, leverage and profitability. This section thus presents the summary statistics, goodness of fit of the regression model estimated and finally the regression results from the multiple linear regression model estimated. The Table 6 below presents the summary statistics of the estimated model as well as the goodness of fit of the model. It can be inferred from the table that 99.1 % (R-square = 0.991) of the variances in the dividend payout is jointly explained by the variations in firm liquidity levels, profitability firm size and leverage. Further the results indicated that the estimated model was significant (*F-stat=85.914, p-value =0.02*)

Table 6: Model Summary and Analysis of Variance (ANOVA)

	Sum of Squares	df	Mean Square	F	Sig.
Regression	1.859	4	0.465	85.914	0.002
Residual	0.016	3	0.005		
Total	1.875	7			
R	0.996				
R Square	0.991				
Adjusted R Square	0.980				
Std. Error of the Estimate	0.074				

Predictors: (Constant), Leverage, Firm Size, Profitability, Liquidity

The Table 7 below indicates the regression results obtained by fitting the multiple regression model as outlined in the methodology section. From the Table 7 it can be deduced that liquidity is negatively (β = -1.0094) and significantly (*p-value* = 0.041) related to dividend payout.It can also be inferred that profitability is positively (β = 0.723) and significantly related (*p-value* = 0.018) to dividend payout of the firm. The results further indicate that firm size is positive (β = 0.794) and significantly (*p-value* = 0.034) related with the dividend payout. Finally, it can also be inferred that leverage has a positive (β = 1.751) and significant (*p-value* = 0.004) relationship with the dividend payout.

Table 7: Multiple Regression Model for Determinants of Dividend Payout

	Standardized Coefficients Beta	t	Sig.
Constant		-3.758	0.033
Liquidity	-1.009	-3.162	0.041
Profitability	0.723	4.744	0.018
Firm Size	0.794	3.702	0.034
Leverage	1.751	8.317	0.004

Dependent Variable: DPO

Discussions

The regression results in Table 7 above indicated that liquidity is negatively (β = -1.0094) and significantly (*p-value* = 0.041) related to dividend payout. The results are in tandem with the findings of John and Muthusamy (2010) who also examined corporate dividend among Indian industries and found a negative relationship between liquidity and dividend payout. Further, the results indicated that profitability was positively (β = 0.723) and significantly related (*p-value* = 0.018) to dividend payout of the firm. The findings of the current study are in line with the findings of Kim and Gu (2009) who investigated the financial features of dividend paying firms and non-dividend paying firms in hospital industry in the U.S and found that large and profitable firms tend to distribute the profits as dividends. The results also indicated that firm size was positive (β = 0.794) and significantly (*p-value* = 0.034) related with the dividend payout. The results are consistent with those of AL- Shubiri (2011) who researched on companies listed

on Amman Stock Exchange and fund a strong positive and significant relationship between firm size and dividend payment decision. Finally, the results also indicated that leverage had a positive (β = 1.751) and significant (*p-value* = 0.004) relationship with the dividend payout. The results seem to be consistent with those of Kapoor, Anil, and Misra (2010) examined dividend determinants of Indian service (FMCG) and found that dividend payout ratio and debt equity ratio are positively related.

Conclusions and Recommendations

It can was concluded from this study that there exists a negative and significant relationship between liquidity and dividend payout. This implies that liquidity was statistically significant in explaining dividend payout and thus the market liquidity of the firms has a negative influence which confirms that firms with higher market liquidity pay lower dividends.Secondly, the study concludes that the profitability has a positive and significant relationship with dividend payout. The results reveal that profitability of the firm is would lead to a higher dividend ratio.Thirdly, it was concluded that that firm size had a negative influence on the dividend payout and finally, the study concluded that leverage has a positive and significant relationship with the dividend payout.

The following recommendations were derived from the findings and conclusions of the study; first the study recommends that companies should maintain an optimal level of market liquidity as market liquidity has a negative influence on dividend payout. Secondly, it is also recommended that since profitability has a positive and significant influence on dividend payout then companies should strive to engage in profitable ventures so as to be in a position to pay dividends to the shareholders. Thirdly, the study recommends that the firm size of the firm should be expanded as an increase in the firm size would imply that the company has a potential of an increase market share and thus would reap more profits and as a result be in a position to pay dividends to its shareholders. Finally, the study recommends that leverage (debt/equity ratio) should be held at an optimal level so that the firm is in a position to pay its shareholders dividends, which is a return for their investments.

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