



INFLUENCE OF PROFITABILITY ON DIVIDEND SMOOTHING AMONG LISTED FIRMS AT NAIROBI SECURITIES EXCHANGE, KENYA

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ABSTRACT

The objective of this study was to establish the influence of profitability on dividend smoothing among listed firms at Nairobi Securities Exchange, Kenya. The study was guided by irrelevance theory. The study adopted descriptive survey design. The study targeted all firms listed on Nairobi Securities Exchange as of December, 2018. The study utilized purposive sampling technique as it only dealt with firms that had been paying dividends between 2014 and 2018. The study utilized secondary data that was collected from NSE handbook between 2008 and 2018. The study utilized descriptive statistics and inferential statistics. Descriptive statistics entailed mean, standard deviation, maximum, minimum and standard error while inferential statistics comprised of correlation and linear regression analyses. The data was subjected to diagnostic test such as linearity, normality, multi-collinearity, homoscedasticity and auto-correlation to test assumptions of linear regression. The results established that there is significant positive relationship between profitability and dividend smoothing. The findings of this study would be significant to various groups such as capital market authority, academicians and management of listed firms. The study concluded that listed firms that were more profitable were more likely to smooth their dividend. It was concluded that Profitability is vital to the firm's manager as well as the owners and other stakeholders. The study recommended that there is need for firms to increase their profitability so as to achieve dividend smoothing over time. This could be achieved by increasing the rate of return of assets. Management was recommended to utilize their assets in a profitable manner so as to achieve dividend smoothing.

Key Words: Profitability, Dividend Smoothing, Listed Firms Performance

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INTRODUCTION

Dividend policy has been an area of concern to academic researchers, financial analysts, shareholders, managers and firms for several decades now (Bremberger, Cambini, Gugler & Rondi, 2013). An important aspect of dividend policy is dividend smoothing which suggests that the firms adjust their dividends in arriving at a desired dividend payout ratio (Larkin, Leary & Michaely, 2017). Dividend smoothing is even more suspect: if one thought of dividends from the view of optimal cash flow management, one might expect them to be highly volatile. Firms tend to invest more and pay higher dividends when profits have increased; on the other hand, they reduce dividends when profits decline in order to maintain the working capital. In the long term, average dividend payouts would be proportional to average profits, but in the short term they would bounce around. Thus, from the point of view of cash management, dividend smoothing – since costly – is a puzzle.

Dividend smoothing theories are primarily based on either agency consideration (Allen, Bernardo & Welch, 2000) or asymmetric information (Guttman, Kadan & Kandel, 2007). Generally, the implications of the information asymmetry models are that firms facing more uncertainty and greater information asymmetry will tend to smooth more. Both theory and empirical evidence show that the U.S. firms are not willing to cut dividends and they do engage in dividend smoothing to keep a constant dividend payout (Skinner and Soltes, 2011). On the other hand, as compared to firms in developed countries, African firms have relatively a higher speed of adjustment factor (to changes in earnings), suggesting relatively little dividend smoothing among its firms.

Pandey (2011) research reveals that although Malaysian firms have a lower smoothing and less dividend stability (higher adjustment factors), they rely on current year's earnings and dividends of past years. In another study, Al-Najjar (2015) also reports that the Lintner's model successfully

explains the dividend behaviour of Jordanian markets, and further suggests that Jordanian entities have target payout ratios and they partially adjust dividends to their target but relatively faster than those in US (developed) market. Chemmanur, He, Hu and Liu (2010) compared dividend policies of Hong Kong and US firms, their study shows that dividend payouts in Hong Kong are more closely related to earnings of the current year and thus the extent of dividend smoothing by Hong Kong entities is considerably lower than those in the US.

Magambo (2016) concluded that private banks in Ethiopian do not follow a stable dividend pattern. This conclusion was arrived at after examining five years' data from 2009/10 to 2013/14 from National bank of Ethiopia and the bank's audited financial statements. The study used dividend payout as a dependent variable and seven independent variables, namely; profitability, growth, liquidity, lagged dividend payout, leverage, size and risk. This conclusion is also supported by Knife (2011) who indicated that there was a fluctuation of dividend payouts for Ethiopian Bank industry between the years 2006 and 2010.

Few studies have investigated dividend smoothing in the best knowledge of the researcher in Kenya. Otieno and Oloo (2015) revealed that factors that determine the dividend smoothing in the companies studied at the Nairobi Securities Exchange are the ownership structure and profitability. Managers use judgment when setting the policy, analysis is used, but it must be applied with judgment. Managers hate to cut dividends, so won't raise them unless they believe that the raise is sustainable. So, investors view dividend increases as signals of management's view of the future. The study recommended that the research can be extended to look for other factors that determine the dividend smoothing, since the researchers believe there are many more other factors that were not captured in this research.

The Nairobi Securities Exchange (NSE) was established in the 1920's where trading of securities began on the platform of gentlemen's agreement. It was registered in the late 1950's under the Societies' Act as a free will association of stock brokerage. Restructuring took place in the year 2001 and this led to establishment of three main market segments namely; the Main Investments Market Segment (MIMS), the Alternative Investment Markets Segment (AIMS) and the Fixed Income Securities Market Segment (FISMS). By December 2018 NSE had sixty-three listed companies. Listed companies in NSE are classified into ten sectors; Telecommunication and Technology, Automobiles and Accessories, Insurance, Banking, Construction and Allied, Agricultural, Commercial and Services, Investment, Manufacturing and Allied, and Energy and Petroleum (NSE, 2018).

Statement of the Problem

An analysis by Business Beat on all the listed companies at the NSE found that approximately a third of the entities had not paid dividends from 2014. For those companies that have paid, there has been a noticeable fluctuation in payout as indicated by Centum Investment, KenolKobil, TPS Eastern Africa which have been increasing their dividend payout while firms such as Standard Chartered Bank, NIC Bank, Crown Paints among others have been cutting their payouts over the study period (CMA, 2018). However, firms such as Equity Bank Holdings, KCB Group, Kakuzi Ltd and Sasini Tea, Bamburi Cement, East African Breweries, Carbacid Investments have maintained a stable dividend payout over the study period (CMA, 2018). The fluctuation in the stability of dividend payout is not restricted to any sector but cuts across all sectors of firms listed at the NSE. This fluctuation in dividend payout has a bearing on the economic growth and development since firms depend on stock market for capitalization to expand job opportunities, increase government revenue and corporate social responsibilities.

Much of dividend policy studies have put much emphasis on developed economies of North America and Western Europe but with minimal concentration on Africa. Further, majority of the studies on dividend smoothing indicate contrasting results. For example, Jeong (2013) indicated that size is a crucial determinant of dividend smoothing in Korea. This contrasts what was established by Otieno and Oloo (2015) who indicate that size of the firm is not an important determinant of dividend smoothing in the firms studied at the NSE. On the other hand, Svensson and Müller (2014) indicated that ownership concentration, leverage and profitability as well as age of the firm are not significant determinants of dividend smoothing in Sweden contrary to Chemmanur et al. (2010) in Hong Kong and Al-Ajmi and Abo Hussain (2011) in Saudi Arabia.

While both survey evidence and empirical evidence suggest that dividend smoothing is a very important ingredient of payout policy, Lintner's study and subsequent studies left the question of what determines a firm's propensity to smooth its dividends almost unanswered. This study sought to investigate the influence of profitability on dividend smoothing among listed firms at Nairobi Securities Exchange, Kenya.

Objective of the Study

The objective of the study was to establish the influence of profitability on dividend smoothing among listed firms at Nairobi Securities Exchange, Kenya.

The study sought to test the following null hypotheses:

- H_0 : There is no significant influence of profitability on dividend smoothing among listed firms at Nairobi Securities Exchange, Kenya

LITERATURE REVIEW

Irrelevance Theory of Dividends

Miller and Modigliani's dividend-irrelevance theory is a theory on dividend policy proposed by Miller

and Modigliani (1961). It says that investors are not really concerned about a company's dividend policy since they can sell part of their portfolio of their equities if they want cash. If they don't want cash, they can use dividends to buy stock. It also states that issuance of dividends has little or no impact on the stock price.

The theory is based on two propositions; if dividends are distributed, an amount will have to be raised through the sale of new shares. The increased value per share through dividends will be exactly offset by the external raising of shares. The terminal value of shares will decline. Shareholders are indifferent between retention of dividend or payment, but they are interested in the firm's future earnings. If instead of raising equity shares the firm raises the sum as advance, there will be no distinction among equity and debt in view of leverage and the genuine cost of obligation is equivalent to the genuine cost of equity. Hence, as indicated by the M.M. theory, the policy of dividend is unimportant (Allen, Bernardo & Welch, 2012).

As indicated by the recommendation of Irrelevance of the Dividend Policy, a company's all out market value isn't influenced by its dividend arrangement. Modigliani and Miller (1961) express that the dividend approach isn't significant for the company's worth (de Wet & Mpinda, 2013). The third suggestion verifies that there is no reliance on the firm's fairly estimated worth of its dividend approach. Miller and Modigliani (1961) contend that the market estimation of a firm is dictated by its procuring power and the danger of its basic

resources. M and M guarantee that in an ideal market, firm's value remains unaffected by its dividend policy (Miller & Modigliani, 1961). On the third proposition, Breuer &Gürtler (2008) argues that, this proposition is nothing more than net present value. Furthermore, concerning this proposition, the authors stress the fact that, there is a possibility for the firm's financiers to make independent decisions regarding the firm's investment decisions (Breuer &Gürtler, 2008).

Critics of the theory argue that investors invest in firms in order to earn dividends and that dividends are relevant under the certain conditions as well. Proponents of the theory believe that the shareholder's wealth is not affected by the dividends. However, there are transaction costs associated with the selling of shares to make cash inflows. This makes the investors prefer dividends. According to the theory, taxes are not present, flotation costs are assumed not to exist, there is no difference between internal and external Leverage all of which is false. Generally, perfect capital markets do not exist as is assumed in the theory (Allen, Bernardo & Welch, 2000).

This theory was applicable to this study since it indicated that dividend policy irrelevant to the firm yet it indicated that the asset profitability and risk determine the value of the company. Hence the study sought to examine influence of profitability on dividend smoothing for listed firms.

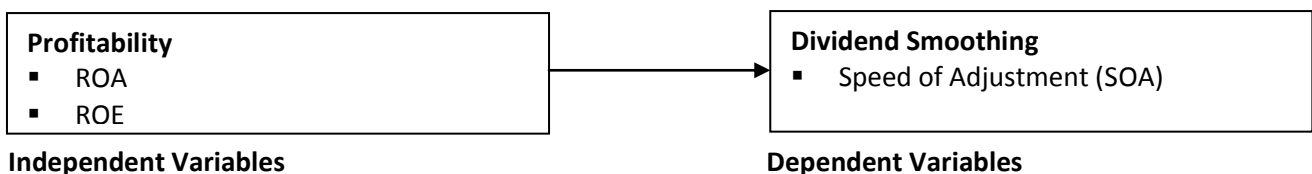


Figure 1: Conceptual Framework

Profitability and Dividend Smoothing

Profitability is the backbone of every business whether it is small or big. All the operational activities depend upon profit which company

generates. In case of low profitability, firms cannot perform actively. It has a significant effect on the dividend payout decisions. When company earns well, it can decide to offer higher dividend to

shareholders who are the actual owners of the company (Ahmed & Murtaza, 2015).

Dividend smoothing is determined in part by the time-series properties of a firm's profits. Consistent with the survey evidence of Lintner (1956), firms with more persistent earnings series smooth less, while those with more cyclical earnings smooth more. It has also been found that firms that smooth their earnings more do smooth dividends less. At the same time, cross-sectional results reflect differences in dividend policy over and above any differences in earnings smoothing behavior. It is also documented that there is a pronounced asymmetry in smoothing behavior. Firms adjust dividends quicker when they are below their target than when they are above (Baker, Mendel & Wurgler, 2015). Here researcher is taking profitability as the return on assets (ROA).

Since profit is what motivates business owners to invest, it is critical to note that it is not something that can be wished away as businesses exist to make generate revenue profitably. Profits thus motivate not only the investors but also the other parties in a business enterprise. Profits are used as an objective indicator of business performance as businesses that are not generating profits are seen as less desirable and in the long run they are likely to be abandoned altogether (Ogbadu, 2009).

Hence it is clear that the profit is the positive difference between revenues and total business expenses, and that whenever the costs are high than revenue that business becomes less desirable as compared to when the revenues are high than the costs (Stierwald, 2010). Firm profitability is usually expressed in terms of either the accounting profits or economic profits and both are critical for any business enterprise (Anene, 2014). Thus over time firm profitability has been used as a measure of firm management efficiency as management is under normal circumstances concerned with converting the firm's resources to profits (Muya & Gathogo, 2016). Thus, firms are likely to gain a lot of benefits related increased profitability (Niresh & Velnampy, 2014). One important precondition for

any long term survival and success of a firm is profitability. It is profitability that attracts investors and the business is likely to survive for a long period of time (Farah & Nina, 2016).

As per Gates, (2010), who notes that in an industrialist business setting, an enterprise aims at profits. This creator proceeds with a view that diminishes the morale to optimize profits. The desire to work remains confined to an individual, and maybe with the family members. When a business is properly maintained, the owners get good profits and this makes them happy (Aubuchon, 2010). Profitability as a concept is founded on objective comparison of the cash outflows and cash inflows of any firm as far as implementation of strategic objectives is concerned (Ahmad, 2011). Profitability is one of main aspects of financial reporting for many firms (Farah & Nina, 2016).

Profitability is vital to the firm's manager as well as the owners and other stakeholders that are involved or associated to the firm since profitability gives a clear indication of business performance. Profitability ratios are normally used to measure revenues over a given period of time usually a financial year numerous scales are used as indicators ranging from sales level, employed capital and earnings per share (EPS) among others. There exists other profitability ratios that measure the earning capacity of the firm which once positive and favorable are normally considered as success indicators (Majed, Said & Firas, 2012).

Dividend Smoothing

Dividend smoothing can be depicted as procedure utilized by the directors to keep away from antagonistic response of market players or investors while setting the level of dividends. John Lintner (1956), in his investigation on the policy of dividend established that management focus on a long run payout ratio of dividend and established that dividends are clingy, associated with long run feasible earning, paid by developed firms, and are smoothed yearly. According to him, shareholders' thinking about change in the net income as sole

factor behind change in the dividend strategy and thus it is the explanation behind management to target net earnings relation to the ratio of dividend payout.

The most widely recognized proportion of smoothing utilized in earlier writing is the speed of operation (SOA) from the incomplete change model of Lintner (Abala, 2013). One concern with the use of SOA as a measure of smoothing is that it assumes firms follow a particular form of payout policy: for example, those firms have a target payout ratio, that the payout ratio reverts toward this target, and that the target is constant over time. However, survey evidence in Brav et al. (2005) shows that the payout ratio is a less relevant target today than it was in Lintner's time.

As early as 1956, Lintner (1956) observed that firms prefer stable dividends. Dividend smoothing is the practice of maintaining relatively constant dividends. It implies that firms change dividends infrequently and dividends are much less volatile than earnings (Ellili & Farouk, 2011). An aspect of dividend policy is dividend smoothing. Therefore it is necessary to examine the factors that influence managers to smooth dividend which includes: taxes, firms' earnings and profitability, agency conflicts, information asymmetry, size of the company, ownership structure and the company's life stage. (Damodaran, 2001; Bender & Ward, 1993).

Under asymmetric information, dividends are used as a signal to convey information about future profitability (Bhattacharya (1979), Miller and Rock (1985), John and Williams (1985), and Bernheim and Wantz (1995)). In contrast, agency theories suggest that dividends are a means to mitigate perquisite consumption, empire building, or other value-destroying activities (Jensen and Meckling (1976), Easterbrook (1984), Jensen (1986), La Porta et al. (2000)).

Empirical Review

Profitability on dividend smoothing

Otieno and Oloo (2013) analyzed the determinants of dividend smoothing among recorded organizations at the NSE. The target of the investigation was to examine the determinants of dividend smoothing of the quoted companies in Kenya. This was a descriptive study. The study focused on the firms that have been paying out dividend over the most recent five years. The investigation utilized optional information from NSE information base. Study used secondary data from NSE data base. The study employed univariate analysis and multiple regressions to quantify the effect of the various factors on the organization's dividend payout. The data that was used was for the last five years that is; from 2008 to 2012 since the more recent the data the more it is likely to give the true representation in the industry. The profitability of a company had a positive relationship with dividend smoothing. Thus the profitability which includes the earnings after expenses, interest and taxes determined the dividend smoothing of the companies studied. The study recommended that this research can be extended to look for other factors that determine the dividend smoothing, since there are many more that were not included in this research.

AnjanaRaju and Rane (2018) led an examination titled "Dividend Smoothing and Implications of Lintner's Model: An Empirical Analysis Of Indian Metal Sector". The goal of the investigation was to examine factors that impact dividend smoothing. The investigation used time series analysis to inspect dividend payout strategies of quoted organizations in BSE Metal Sector. Ability database kept by Center for Monitoring Indian Economy is the main source of information for the examination reason. The experimental examination of 782 firms' year observation for the time of fifteen years uncovers that dividend smoothing wins in Indian Auto Sector. The examination uncovers policies on dividend of the organizations rely emphatically upon slacked profit and profit after expense with

hearty factual centrality of coefficients. The great target payout proportion combined with speed of modification shows nearness of dividend smoothing.

Maharshi and Malik (2015) inspected the determinants of dividend smoothing by firms and discover its linkage with data substance of dividend. The particular target of the investigation was to examine the impact of firms' characteristics like profitability on dividend payment pattern that is to identify different determinants of dividend smoothing. Further, study sought to investigate the association between various ownership groups and dividend payout policies of Indian corporate firms. This study was descriptive in nature, based on secondary data. The data was collected from Karachi stock exchange is important stock exchange market and is also representative of the region. For the result of the study researcher analysed the data by using the Statistical package of SPSS, employing the statistical tool of T Test Analysis, correlation and regression. The results revealed that profitability influences dividend smoothing.

Kighir, Omar and Mohamed (2015) explore the effect of cash flow on adjustment in dividend payout choices among firms cited at Bursa Malaysia when contrasted with earnings. The goal of the examination was to explore impact of corporate income on the smoothing of dividend. The exploration utilized panel data from 1999 to 2012 at Bursa Malaysia, utilizing summed up technique for minutes as the primary strategy for investigation. The examination finds that Malaysia non-financial firms consider current earning more significant than current cash flow while settling dividend payout choices, and earlier year incomes are viewed as more significant in dividend choices than earlier year income. The examination reasons that Malaysian non-financial firms utilize current earning and less of current cash flows in making changes in dividend policy. The strategy suggestion is that current earning are dividend smoothing operators, and the more they are considered in dividend payout choices, the less of dividend smoothing. In

the event that dividend smoothing is empowered, it could prompt dividend based management of earning. The examination prescribed that if dividend smoothing is energized, it could prompt dividend based management of earning.

Rane and AnjanaRaju (2018) concentrated on "Dividend Smoothing & Implications of Lintner Model a Study of Indian Consumer Goods Sector utilizing Panel Data". The target of the examination was to research whether suggestions dividend smoothing model of Lintner holds useful for Indian Consumer Goods division. Using 15 years of panel data with 465 and 815 observations of Consumer durable goods sector and FMCG sector individually. Ability database kept by Center for Monitoring Indian Economy (CMIE) was the prime source of information for the examination reason. study finds robust relationship between the smoothness of a firm's dividends with independent variable profitability and lagged dividend. The decision of a specific speed of change factor relies on potential varieties in net profit after expense. Stable net income after tax would prompt management to pick a higher change coefficient. In any case, if net income is dependent upon wide vacillations, a craving to have stable dividend would prompt picking lower change coefficient. It might be expressed that the important determinant of dividend smoothing is firm's profit.

METHODOLOGY

The research used a descriptive research design. Descriptive studies are the best methods for collecting information that demonstrate relationships and describe the behavior or type of a subject. The target population for this study was 62 firms listed on Nairobi Securities Exchange. The listed firms that had been paying dividends for the last 5 years from 2014 to 2018 and were in operation by close of business of 31st December 2018. The study involved all the listed firms at NSE. The study therefore, used a purposive sampling technique. The research utilized secondary data collection method. Secondary data was collected from NSE and the Capital market authority (CMA).

Data analysis involved both descriptive and inferential statistics.

RESULTS

Descriptive Statistics

The descriptive statistics entailed Minimum, Maximum, Mean and standard deviation between

year 2014 and 2018. The results showed overall descriptive statistics as obtained from panel data of stated periods. These were the natural logarithms of respective variables. The results were as shown in Table 1.

Table 1: Descriptive Statistics

Statistics	ROA _{ln}	ROE _{ln}	LS _{ln}	T5S _{ln}	DER _{ln}	DAR _{ln}	FS _{ln}	DS _{ln}
2014								
Max	0.22	0.91	0.95	0.95	6.60	0.87	92,300,000	41.65
Min	0.01	0.05	0.03	0.03	0.15	0.13	32,372	0.03
Mean	0.08	0.23	0.43	0.58	2.94	0.63	24,600,000	5.10
Std dev	0.07	0.18	0.25	0.22	2.35	0.25	21,800,000	8.99
2015								
Max	0.23	0.56	0.95	0.95	5.96	0.86	105,000,000	42.13
Min	0.01	0.04	0.03	0.03	0.17	0.15	38,355	0.84
Mean	0.08	0.21	0.43	0.58	2.84	0.62	27,900,000	4.68
Std dev	0.07	0.13	0.25	0.22	2.26	0.25	25,500,000	8.95
2016								
Max	0.38	1.09	0.95	0.95	6.09	6.09	106,000,000	41.60
Min	0.01	(0.08)	0.03	0.03	0.20	0.20	39,716	0.76
Mean	0.09	0.25	0.43	0.58	2.73	2.73	30,200,000	5.24
Std dev	0.09	0.25	0.25	0.22	2.30	2.30	26,900,000	9.36
2017								
Max	0.24	0.74	0.95	0.95	6.15	0.86	117,000,000	42.41
Min	0.01	0.02	0.03	0.03	0.15	0.13	42,388	0.07
Mean	0.08	0.22	0.43	0.58	2.72	0.61	33,400,000	5.33
Std dev	0.07	0.16	0.25	0.22	2.17	0.25	30,800,000	9.30
2018								
Max	0.30	0.71	0.95	0.95	5.78	0.85	107,000,000	32.50
Min	0.01	0.04	0.03	0.03	0.13	0.12	44,099	0.27
Mean	0.07	0.19	0.43	0.58	2.77	0.61	36,400,000	5.49
Std dev	0.07	0.16	0.25	0.22	2.19	0.25	32,000,000	8.09
PANEL DATA SUMMARY								
	ROA _{ln}	ROE _{ln}	LS _{ln}	T5S _{ln}	DER _{ln}	DAR _{ln}	FS _{ln}	DS _{ln}
Max	0.38	1.09	0.95	0.95	6.60	6.09	117,000,000	42.41
Min	0.01	(0.08)	0.03	0.03	0.13	0.12	32,372	0.84
Mean	0.08	0.22	0.43	0.58	2.80	1.04	30,500,000	5.17
Std dev	0.07	0.18	0.25	0.21	2.22	1.34	27,500,000	8.80

ROA is Return on Assets, ROE is Return on Equity, LS is largest shareholder, T5S is top five shareholders, DER is debt equity ratio, DAR is debt asset ratio, FS is firm size and DS dividend smoothing while ln is natural logarithm

From Table 1, observing overall statistics as obtained from panel data, natural logarithm of

return on assets ranged from 0.01 to 0.38 with a mean of 0.08. The distribution had a standard deviation of 0.07. ROE ranged from -0.08 to 1.09 with a mean of 0.22. The standard deviation for natural log of ROE was 0.18. The natural log for largest shareholder ranged from 3.0% to 95.0% with a mean of 43.0% and standard deviation of

25.0%. Top 5 shareholders natural log ranged from 3.0% to 95.0% with a mean of 58.0% and standard deviation of 21.0%

The natural log for debt equity ratio ranged from 0.13 to 6.60 with a mean of 2.8 and standard deviation of 2.22. Debt asset ratio natural log ranged from 0.12 to 6.09 with a mean of 1.04 and standard deviation of 1.34. Firm size (total assets)

ranged from 32,372 to 117,000,000 with a mean of 30,500,000 and standard deviation of 27,500,000.

Lastly, dividend smoothing ranged from 0.84% to 42.41% with a mean of 5.17% and standard deviation of 5.17%. The Figure 2 showed line graphs for listed firms against time in regard to dividend smoothing. It was deduced that there was increasing trend for dividend smoothing between 2012 and 2018.

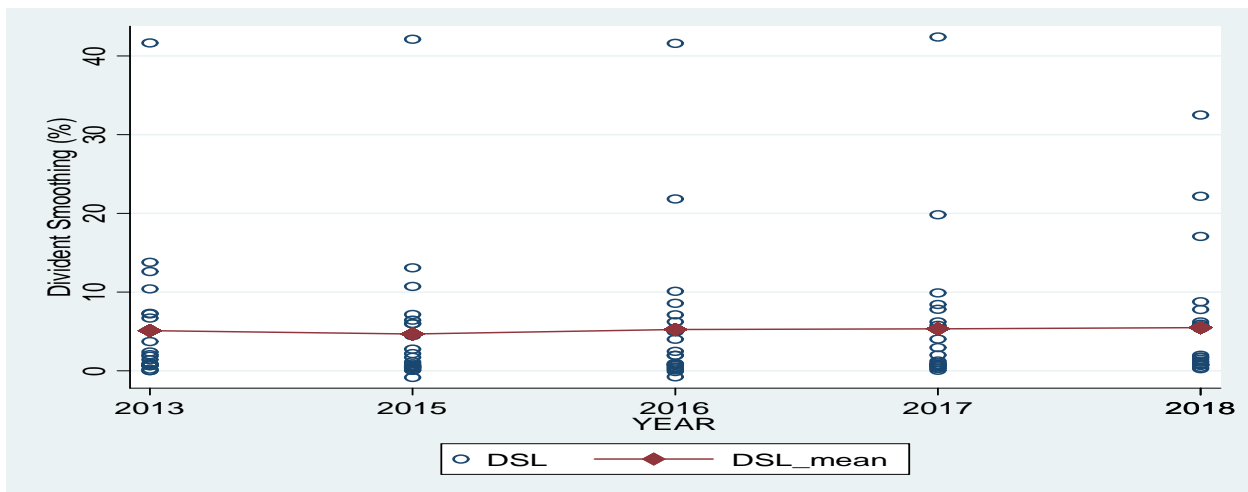


Figure 2: Dividend smoothing between 2014 and 2018

Inferential Analysis

Linear influence of Profitability on Dividend Smoothing

Simple linear regression analysis was conducted to examine influence of profitability on dividend

smoothing among listed firms at Nairobi Securities Exchange, Kenya. The results were as shown in Table 2.

Table 2: Regression Results of Profitability on Dividend smoothing among listed firms

Model Summary								
Model	R	R Square	Adj R Square	Std. Error of Estimate	R Sq Change	F Change	df	Sig. F Change
1	.441 ^a	.194	.180	1.08942	.194	13.491	2, 112	.000

a. Predictors: (Constant), profitability

ANOVA ^a					
Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	32.023	2	16.012	13.491	.000 ^b
Residual	132.925	112	1.187		
Total	164.949	114			

a. Dependent Variable: Dividend smoothing

b. Predictors: (Constant), profitability

Model	Coefficients ^a				T	Sig.
	Unstandardized Coefficients		Standardized	Beta		
	B	Std. Error				
1 (Constant)	.743	.490			1.518	.132
ROAL	.529	.157	.342		3.368	.001
ROEL	.208	.144	.147		1.444	.151

a. Dependent Variable: Dividend smoothing

The results illustrated that there was a statistically significant relationship between profitability and dividend smoothing among listed firms. Profitability accounted for 19.4% ($R^2 = 0.194$) variations in the dividend smoothing among listed firms. The results were in agreement with Chen, Da and Priestley (2012) who established that there is relationship between profitability and dividend smoothing. Therefore, profitability plays significant role in determining dividend smoothing.

From the ANOVA table significance of the model had a value $F(1,114) = 13.491$, $P < 0.05$ this showed that it's significant at 95% confidence level hence the model is significant. This implied that profitability is a significant determinant of dividend smoothing among listed firms. Maharshi and Malik (2015) inspected the determinants of dividend smoothing by firms and discover its linkage with data substance of dividend. The results revealed that profitability influences dividend smoothing.

The partial regression coefficient for return on asset was 0.529 shows that increase in one percent in ROA across time and listed firms in Kenya makes dividend smoothing to increase by 0.529 per cent. However, the partial regression coefficient for return on equity was 0.208 which showed that increase in one percent in ROE across time among listed firms in Kenya makes dividend smoothing to increase by 0.208 per cent.

The regression model is as shown below

$$Y = 0.743 + 0.529X_1 + 0.208X_2$$

Where Y is Dividend Smoothing

X_1 is ROA

X_2 is ROE

From the above results, only ROA had significant positive effect on dividend smoothing while ROE has insignificant negative effect on dividend smoothing. The results were supported by Otieno and Oloo (2013) showed that profitability which includes the earnings after expenses, interest and taxes determined the dividend smoothing of the companies studied. Rane and AnjanaRaju (2018) found robust relationship between the smoothness of a firm's dividends with independent variable profitability and lagged dividend. The decision of a specific speed of change factor relies on potential varieties in net profit after expense.

Hypothesis testing

The study hypothesis (H_0) stated that there is no significant influence of profitability on dividend smoothing among listed firms at Nairobi Securities Exchange, Kenya. Multiple regression results indicated that profitability has significant influence on dividend smoothing among listed firms in Kenya ($\beta = 0.586$ (0.148) at $p < 0.01$). Hypothesis three was therefore rejected. The results indicated that a unit increase in profitability would lead to 0.586 unit increments in dividend smoothing among listed firms in Kenya.

CONCLUSIONS AND RECOMMENDATIONS

The study sought to examine influence of profitability on dividend smoothing among listed firms at Nairobi Securities Exchange, Kenya. Profitability was measured using return on asset and return on equity. Return on asset had significant positive effect on dividend smoothing while return on equity had insignificant positive effect on dividend smoothing. Using return on asset as a measure of profitability, the study established

that profitability is a useful predictor of dividend smoothing. A unit increase in profitability would result in an increase in dividend smoothing of listed firms.

The study concluded that listed firms that were more profitable were more likely to smooth their dividends. It implied that firms change dividends infrequently and dividends are much less volatile than earnings. Profitability is vital to the firm's manager as well as the owners and other stakeholders that are involved or associated to the firm since profitability gives a clear indication of business performance.

The study recommended that there is a need for firms to increase their profitability so as to achieve dividend smoothing over time. This can be achieved

by increasing the rate of return on assets. In this case, management was recommended to utilize their assets in a profitable manner so as to achieve dividend smoothing.

Areas for Further Research

This research was mainly focused on examining the influence of profitability on dividend smoothing among listed firms at Nairobi Securities Exchange, Kenya. This research can be extended to look for other factors that determine dividend smoothing such as age, growth opportunities, since the researchers believe there are many more that were not included in this research.

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