

## **CAPITAL STRUCTURE AND DIVIDEND PAYOUT DECISIONS AMONG LISTED FIRMS AT NAIROBI SECURITIES EXCHANGE, KENYA**

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## **ABSTRACT**

Capital structure decisions are considered key in driving the firm's dividend pay-out which in turn ensures continuity and growth of a business. The success of any organization in the world depends highly on capital structure decisions as they involve a sizeable amount of shareholder funds. Those kind of decisions become even more complicated, if the atmosphere in which the company operates in is highly unstable. The dividend payout of firms has continued to shrink over the past decade, driven principally by poor investment and financing decisions in various industries. The study assessed the influence of capital structure on dividend payout decisions among listed firms at Nairobi Securities Exchange. The specific objectives were; to determine the influence of long term debt capital on dividend pay-out decisions among firms listed at Nairobi Securities Exchange, Kenya, to ascertain the influence of internal equity capital on dividend pay-out decisions among firms listed at Nairobi Securities Exchange, Kenya and to determine the influence of external equity capital on dividend pay-out decisions among firms listed at Nairobi Securities Exchange, Kenya. The timespan was 5year period between 2014 and 2018. The study was supported by Modigliani and Miller Capital structure theories, trade-off theory, pecking order theory and agency theory. A census of all the 64 firms listed at NSE as at 2018 constituted target population. The study utilized secondary data which were

extracted from the audited financial statements, annual reports and firm's publications by use of a document review guide. The statistical analysis produced both descriptive statistics and inferential statistics. The results of the data analysis were captured using tables. The study established that there was a negative correlation between long term debt and dividend pay-out decisions among firms listed at Nairobi Securities Exchange, Kenya. The exploration established that there was a medium positive correlation between internal equity capital and dividend payout decisions. The conclusion was that an increase in internal equity would lead to an increase in dividend payout decision to a significant extent. The study determined that there was a positive correlation between external equity and dividend payout decisions. The study hence recommends that long term debts should be maintained a low level to prevent a decrease in the dividend payout decision. Firms should raise capital first from earnings then debt and firms also should prefer internal finance first before considering external finance. Profitable firms can use earnings to fund investments and hence less need for long term. The listed firms should observe their policies dealing with the equity to improve on their dividend payout decisions. Further studies could focus on a wide range of predictors and scope.

**Key Words:** *capital structure, dividend payout decisions, listed firms, Nairobi Securities Exchange, Kenya*

## **INTRODUCTION**

Amongst the most important fields in a company is financing. A manager in the financing department cares about determining the most appropriate mix of financing and mixture of equity and debts for the company he serves. The decision for capital for structure is the combination of equity and debt which a firm employs for financing its operations. The essence of structure for capital is significantly associated to the capacity of companies towards fulfilling the wants of different stakeholders. Structure for capital mirrors the main rights to the assets of a corporation which entail the various types of liabilities and equities (Nova, Zanetti and Goya, 2016).

There exists different alternatives for the ratio of debt to equity, they comprise of; Equity at 100 per cent: 0 per cent of debt, Equity at 0 per cent: debt at 100 per cent and Equity at X per cent: debt at Y per cent (Psillaki and Margaritis, 2015). From the 3 options, the first option is the one for an unlevered company, that means, the company that avoids the leverage benefits. The second option is the one for a company which does not have equity capital. That alternative in fact might not be possible or realistic in the existing life of any economic condition, since not any fund providers are going to invest their funds in a company that does not have equity capital. Somewhat, that describes the words “Equity trading”, that means, it’s the element of equity which is available in the structure of capital which inspired providers towards giving their limited resources to the firm. The third option is the one which is very realistic, it has a mix of a particular debt percentage as well as equity in the structure of capital and therefore, there is exploitation of leverage advantages. This combination of equity and debt has for long become the topic of discussion relating to ways of determining, evaluating as well as accounting on it.

The paradigms of Modigliani-Miller (1963) on the market values and structure of capital for companies, there has been substantial discussions, in the empirical and theoretical studies on the relationship nature existing between the market value and the choice of a company’s structure for capital. The discussions have majored on if there happens to be an ideal structure of capital for a particular company or if the amount of debt used is appropriate to a particular value of a company (McCumber, 2014).

According to the study by Rafique (2017) examining factors determining dividend payout for fifty three firms listed by KSE, Pakistan. The association was measured by use of panel data for six years (from the year 2005 to the year 2010). By use of multivariate regression analysis, outcomes indicated, just the tax of a company and the size of a company did have a significant relation with the dividend payout. That means that companies in Pakistan have a tendency of paying higher dividends where they grow bigger in size and pay lower taxes.

In an Asia study, Muhari, Hosen and Fitri, (2016) as well assessed the relation between the performance of companies and the ratio of dividend payouts by use of 30 companies listed by ISE from the year 200g to the year 2014. The outcomes of their study showed, the asset growth coefficient was negative correlated to dividend payout but Return on Asset or ROA showed a

positive correlation to the dividend payout. There was need for manager to consider careful the impact of external factor on a firms' profitability.

Financial limitations have become a chief aspect that affects the performance of companies in developing nations particularly Nigeria. The grounds for determining the ideal structure of capital of Nigeria's sector of business is the deepening and broadening of different financial markets. Majorly, the sector of business is featured by a big number of companies that operate in a very liberalized and progressively competitive atmosphere. Alfred (2017) proposed that the structure of capital of a company means the amount of equity and debt in the sum structure of capital of the company. Khan (2017) distinguished between the structure of capital and the structure of financing by confirming that the different means employed in raising funds mirror the company's structure for capital, whereas the structure for capital mirrors the comparable relations between equity capital and long-term debt. Thus, the structure of capital of a company simply alludes to the mixture of equity financing and long-term debt. Nevertheless, if or if not an ideal structure of capital is present relating to the value of a firm, is amongst the very significant and compound issues in business finance.

Abor and Fiador, (2013) argue that in Nigeria all corporate governance measures shows significantly negative effect on dividend payout. They argue that by improving the governance structures may associate with high-earning retention or low-dividend payment in order to reduce cost of external finance. According to Oyinlola and Ajeigbe (2014) examine how the dividend policy impacted on the stock price of twenty two firms listed in Nigeria in the span between year 2009 to the year 2013. Granger causality test, correlation and regression analysis, were employed in testing stud hypothesis for one hundred and ten observations. Outcomes show, retained earnings and dividend payout are considerably pertinent to companies' market per share.

Since 1987, liberalization in financing has shifted the environments of operating of companies, by providing increased flexibility to financial managers in Kenya in the choice of the structure of capital for their company. Murekefu and Ouma (2013) aimed at establishing the relation between how firms perform and dividend payout of firms listed by NSE. Outcomes show, dividend payout happens to be a chief aspect affecting the performance of a company. The relation among the variable is positive and significant.

According to Kenya Gazette Legal Notice No.60 (2002) amongst the necessities which firms must accomplish by wanting NSE to list them include, they are supposed to have a properly laid out future policy for dividend. This renders the policy of dividends worthy to get serious attention from the management. The policy for dividend is still one key policy in financing not just from the firm's perspective, but as well from shareholders, government, consumers, regulatory bodies and employees. To a company, it's an essential policy from where other policies related to finance revolve (& Al-Soub, Alamro and Almajali, 2015).

## **STATEMENT OF THE PROBLEM**

According to Mwangi, Makau and Kosimbei (2014) the government and the private industry have heavily invested in creation of a conducive atmosphere for conducting business within Kenya, and actually, some firms have exceedingly done well due to that. A number of firms, nevertheless, are encountering a decline in performance and others have actually faced delisting by NSE for the last 100 years. Significant attempts of reviving the liquidating and ailing firms have aimed at restructuring of finance. Nevertheless, practitioners and managers are still lacking sufficient guidance to attain optimal decisions of financing (Mutwol, Tenei, Kibet and Kibet 2016) though most of the challenges encountered by the firms placed under constitutional management were greatly termed as a result of financing (Wasike, Kipchumba and Chebii, 2016). This condition has resulted to the losing of confidence and wealth of the investors within the stock market. In relation to NSE listed companies, a few have continued to declare and pay dividend over time. Most companies pay dividend in form of cash dividend and bonus shares. Cash dividends are normally paid twice in a given financial year. Buy back of shares as a form of dividend is very rare in Kenya. Some companies pay dividend at the end of second quarter while the last one is paid at the end of financial year. When there is unexpected income entities pay a one off extra dividend which is consistently paid subsequent years. In NSE listed companies have policies on dividend that are in line with the general practice. Surveys on the relation between different decisions on financing and dividend payout have produced mixed results. Ebaid (2018) carried out a study to investigate the impact of choice of capital structure on dividend payout amongst companies listed in Egypt. The study indicated that capital structure has little to no impact on a firm's dividend payout. These results are inconsistent with other empirical studies such as Javed and Akhtar (2016) and Chowdhury and Chowdhury (2016) which revealed a positive relationship between dividend payout and capital structure. Other studies revealed a negative relationship such as Maina and Kondongo (2013), Su and Tam (2017) and Salman and Yazdanfar (2015) whereby lower equity capital ratio is associated with higher dividend payout. The issue of capital structure has been a subject of concern and for many researchers over many years because it linked to the firm's ability to meet the objectives of shareholder. Capital structure and dividend decision is a critical decision for the business organization to maximize shareholder value (Morris, 2014). In addition, the choice of capital structure is of utmost important in determining the value of the firm and consequently its survival (Ogebe & Kemi, 2013). The most important questions manager need to be concerned with is the amount to be retain in the organization and how much to pay as dividends to shareholder to make the most of the firm's value. Lacking a consensus by different scholars regarding the impact of structure of capital on the ratio of dividend payout entails the reason to investigate further on the field under research. The capital structure is important factor in determining the choices of dividend pay-out in Kenya context. It is against this backdrop that this study embarked to establish the effect of capital structure on dividend payout decisions among firms listed at Nairobi Securities Exchange.

## **GENERAL OBJECTIVE**

The general objective of this study was to investigate the influence of capital structure on dividend payout decisions of listed firms at Nairobi Securities Exchange, Kenya.

## **SPECIFIC OBJECTIVES**

1. To determine the influence of long term debt capital on dividend pay-out decisions among firms listed at Nairobi Securities Exchange, Kenya.
2. To ascertain the influence of internal equity capital on dividend pay-out decisions among firms listed at Nairobi Securities Exchange, Kenya.
3. To determine the influence of external equity capital on dividend pay-out decisions among firms listed at Nairobi Securities Exchange, Kenya.

## **THEORETICAL REVIEW**

### **The Pecking Order Theory**

This theory asserts that firms at any time have a preference of financing their operations. Thus, a company may choose to go for a loan as compared to share capital depending on the cash flows in comparison with expected expenditure. Accordingly, an organization may go for internal financing for example with preference on debt over equity or at worst resorting to equity as a final cause of action. That implies that companies might not essentially stick to programmed positions during financing so long a source proves optimal (Myers, 1984). In given circumstances, management may forgo a positive return but issue new share capital to ensure higher project value (Myers & Majluf, 1984).

Many surveys conducted have evidenced, there exists a negative relation between company's profits and its debts (Frank & Goyal, 2008). Similarly, Zoppa and McMahon (2002), contends that companies that have great profits have a high probability of having low debt levels. Sánchez-Vidal and Martín-Ugedo (2005) argue that there is no optimal capital structure because manager gives priority to raising funds internally. If it is necessary to gain cash by external ways, debt funding is normally preferred by managers compared to equity funding. As the profits rise, there is an expectation, leverage is supposed to be decreasing because profits happen to be a type of revenue. Even though a research by Bhaduri (2002) confirmed that a company is supposed to be managing its debts to a provided target ratio. For many years, research carried out in the developing nations has agreed to the pecking order theory as pointed out by Daher (2004) who assessed Brazil whereby the idea wasn't just held though also clearly showed that a company must at all times develop an intended list of priority during financing.

It was concluded that the share capital may be desirable because commercial debt always comes with other binding obligations. Atiyet (2012) noted that the aspect of adverse selection

compounded by asymmetry of information has for long informed financing decision. Preference for share capital over debt contrary to this theory has also been supported by Fama & French (2005). There is a mixed support for the pecking order theory. The pecking order hypothesis was tested by Shyam & Myers (1999) and overwhelming evidence found indicated that indeed organizations follow the pecking order theory. De Jong, Verbeek and Verwijmeren (2011) on his part found out that firms should formulate their financial structure in line with their preferred financing hierarchy. In Europe, Vasiliou, Eriotis and Daskalakis (2009) carried out a detailed study that concluded that the pecking order theory is an important element in determination of a financial structure which in turn greatly affects profits of the firm.

The relevance of pecking order theory on capital structure and dividend payout is that the organization prefer internal to external finance (debt finance) which explain that more profitable firm borrow less not because there have target debt ratio is low, is that they don't have target. Profitable firm have more internal financing available and pay good dividend whereas less profitable form requires external financing, and consequently accumulate debt and pay low dividend.

### **Agency Cost Theory**

Jensen and Meckling (1976) contended, that the structure of finance of a company is affected by the involved costs of agency; they might include though not restrained to issue of share capital and debt. The expenses involved during the issue of share capital mostly entails: principal costs of monitoring (holders of share capital), cost of bond for the manager or agent, and reduced welfare because of different decisions of an agent amongst others. The expenses that a company incurs entails the opportunity cost as a consequence of debt that is incurred while investing in different projects. (Hunsaker, 1999) points out that both share capital and commercial debt attract costs hence need for optimization and consequent the trade-off between the emerging costs.

Jensen and Meckling (1976) suggested and stressed the need to maintain sustainable debt levels which can be basically done by minimizing relevant costs that may arise from any given financing method selected. Subsequent studies done on this theory have indicated that ownership and management of the organization must align all the interests of different stakeholders. Therefore, organizations that rely on commercial debt financing have been seen to reduce manager's ability to make decisions as it acts a control mechanism. Agency cost theory notes that commercial debt not only disciplines managers but also monitors them over time (Boodhoo, 2009).

The relevance of agent theory on capital structure and dividend payout is that when managers with substantial free cash flow (cash flow in excess) can increase dividends or repurchase stock and thereby payout current cash that would otherwise be invested in low return projects. This will leave managers with control over the use of future free cash flows, but they can promise to

pay out future cash flows by announcing a "permanent" increase in the dividend. Such promises are weak because dividends can be reduced in the future. Conflicts of interest between shareholders and managers over payout policies are especially severe when the organization generates substantial free cash flow. The problem is how to motivate managers to disgorge the cash rather than investing it at below the cost of capital or wasting it on organization inefficiencies.

### **Liquidity Theory**

Liquidity theory as posited by Petersen and Rajan (1997) and further evidenced by Diamond and Rajan (2001) supports opportunism in buying. In that, a buyer may not be in position to credibly acquire supplies due to liquidity issues caused by distress leading to failure to pay promptly. Thus this theory holds that in case the supplier of goods has better access to finance as compared to his client or even when the buyer hesitates to use the available monies to access goods needed then credit is encouraged (Emery, 1997). Hence it can be concluded that, inadequate funds credit and therefore is an alternative financing. The theory notes that; suppliers have several merits as compared to banks in offering trade credit to buyers.

Following Carroll (2007) reasoning, clients may experience liquidity shocks temporally, which calls for the need of the liquidity to ensure survival. This can help maintain the relationship between the supplier and the consumer. Recent studies by Knauer and Wöhrmann (2013) found out that financial crisis may reduce firm profitability. Thus, the trade credit is facilitated by the liquidity theory and is viewed as a strategic choice especially on the need of customer retention. In this sense, trading on credit is a tool that signals how customers can and suppliers can mutually benefit from a longer-term relationship (Fisman & Love, 2003).

The theory further holds that there are suppliers cannot simply do away without such trade arrangements as customers will always delay in payments hence there need to seek liquidity using other methods. This is not only realistic in developing economies where firms may fail to invest due to lack of funds but also in developed economies where simple operations may not take place in the absence of money thus need to have finances at hand to ensure continuity which can be possible in the absence of financial distress as per liquidity theory (Sarno, 2008).

The application of this theory lies in the fact that smaller firms depend on relationships created to ensure that they are liquid. In the long run it is assumed that each debtor however small will finally grow and based on the relationship created such prompt future payment will enable the supplier to take off and avoid potential financial risks of distress and bankruptcy caused by delayed payment or none payments which could have been avoided had there been practical ways of avoiding the same hence need to maintain liquidity.

The relevance of the liquidity theory on capital structure and dividend payout is that the firm with more liquid assets can use their liquidity to finance investment opportunities instead of taking debt. There is also a negative relation between liquidity and dividend payment. In a liquid



market, capital gain is more preferable to dividends because market support more selling of stocks.

### **Trade Off Theory**

Trade off theory founded by Myers (1984) upholds the assertion that, the organization is a setting where there is a target in debt and capital share ratios. This means that firms will always seek to be debt free/ without debts to ensure the dangers of financial distress are drastically reduced. This in particular, calls for establishment structures that will ensure financial targets set are regularly met in a manner that reflects reality in terms of taxes, risks, and assets besides profitability. The firm has hence to ensure a balance between costs and benefits of loans.

This theory postulates that more profitable companies are associated with lower bankruptcy costs. Thus, such firms are also able to maintain a higher debt level. The positive relation between profitability and leverage finds confirmation in several researches (Jensen, 1986). Alternatively, the dynamics of this theory suggests that leverage is negatively associated to profitability mainly due to the fact that companies could finance their activities with accumulated internal funds, such as retained earnings. Thus, generating higher operating profit would support company's decision to reduce its debt financing. Furthermore, recent researches discuss the negative correlation between profitability and debt levels, pointing out that if a company becomes more profitable and thus, more valuable, while still maintaining fixed debt level, its debt ratios would become lower (Titman and Tsyplakov, 2007). Subsequent empirical studies on theory found evidence that supports the trade-off theory (Frank & Goyal, 2008). Deesomsak, Paudyal, and Pescetto, (2004) found empirical evidence which suggests that this theory can influence financial structure decisions of firms.

De Haan and Hinloopen (2003) tested different proxies of the trade-off theory and found empirical evidence which underscored the importance of this theory was an important determinant in the capital structure choice of their target sample. Karadeniz, Yilmaz Kandir, Balcilar and Beyazit, (2009), and Huson (2009) have all argued in favor of this model besides concluding that the model possesses more explanatory power when compared to other models. Javed and Jahanzeb (2012) in their study to unearth the various determinants of both long-term and short-term debt, they found a remarkable difference between the assumed determinants and the components of the issued debts.

However, there is a gap in the explanation the conservative business nature by this theory, more especially when the business is using funds from debt(s). There is no explanation of why taxation system is affected by the leverage. Luigi and Sorin (2009) notes that the optimal debt of a business may depend on the cost of bankruptcy and the tax advantage achieved. At this point of exchange, the present marginal value of tax on the extra debt is equivalent to the additional costs of the present value of the financial distress (Mule & Mukras, 2015).

The relevance of this theory to capital structure and dividend payout is that firm should set its target capital structure such that its costs and benefits of leverage are balanced at the margin, because such a structure will maximize its value (Acaravci, 2015). The trade-off theory of the capital structure suggests that a firm's target leverage is driven by three competing forces: (i) taxes, (ii) costs of financial distress (bankruptcy costs), and (iii) agency conflicts. By doing so the company will be able to cater for shareholder need.

## **EMPIRICAL REVIEW**

Pratheepkanth (2016) conducted a study on capital structure and financial performance: evidence from selected business companies in Colombo stock exchange Sri Lanka. In their study on debt financing suggest that aggressive liquidity policy combine the higher levels of normally lower cost short-term debt and less long -term capital. Although capital costs are reduced, this increases the risk of a short -term liquidity. They established that total and short -term debt is positively related to firm's profitability, which might be the most important factor in accessing outside financing in countries with weak collateral laws. From their studies they also found out that a negative relation between tangibility and short-term debt and a positive relationship between tangibility and long-term debt exists. These results are consistent with most theories on capital structure that suggest that firms without fixed-assets to use for collateral are unable to access long-term financing.

Kubai (2016) examined capital Structure and Financial Performance of Manufacturing Firms. Specifically, dividend pay-out metrics namely dividend pay-out was used to indicate the performance of the firms. The study covered the period between year 2009 and 2015 and applied a descriptive survey research design approach. Targeted were ten manufacturing firms listed at the NSE. Regression analysis output established that total debt shows a negative association with dividend pay-out. The study presents empirical gaps on the need to consider the effect of other components of capital structure on dividend pay-out.

Chiang, Chan, and Hui (2013) studied capital structure and dividend pay-out. The study sampled 35 companies listed in Hong Kong Stock Exchange for analysis. Results demonstrated significant association between capital structure and dividend pay-out. The Gill, Biger, and Mathur (2011) study aimed at extending Abor's (2005) results on capital structure and dividend pay-out. The study specifically targeted the American service and manufacturing firms. Findings demonstrated that the ratio of long-term debt to total assets enhances dividend pay-out. Similar positive associations were reported between total debt to total assets and dividend pay-out in the service industry.

Njagi, Kimani, and Kariuki (2017) focused on equity financing and financial performance of SACCOs in Embu Town, Kenya. A total of 300 SACCOs were targeted from which a sample of 60 were selected. The study used a descriptive survey research approach. Results indicated that SACCOs friends' contribution and ploughing back profit as a source of equity finance was more

popular among SACCOs. Angel investors was not a prominent equity financing method among SACCOs. Regression and correlation analysis results demonstrated that equity finance has a positive relationship to financial performance of the SACCOs.

Musila (2015) analysed equity financing and financial performance of listed energy and petroleum companies. A descriptive survey research design was adopted while data covered the period between 2005 and 2014. Dividend pay-out was used to indicate financial performance. Results demonstrated a positive but insignificant association of equity financing (internal and external) on dividend pay-out. Empirical gaps are highlighted in that the findings conflict the foundation of theory and past studies that have suggested performance enhancing effects of equity finance.

Yegon, Cheruiyot and Sang (2014) assessed capital structure and dividend pay-out through an analysis of the Kenyan banking sector. The study relied on panel data extracted from companies' financial statement gathered from NSE handbooks and covered the period between 2004 and 2012. Internal equity showed an inverse association with dividend pay-out. The study presents empirical gap on the need to re-examine the effect of total debt level as trade off theory suggests performance enhancing effects up to a certain optimal level.

Okumu (2016) studied capital structure and dividend pay-outs of commercial banks in Kenya. Specifically analysed was the effect of debt, internal equity, external equity, and preference share on financial performance. The target population was made up of 43 commercial banks. Secondary data was gathered from annual reports available at individual bank's websites and from CBK. The review covered a ten-year period from 2005 to 2014. Results indicated that debt ratio positively influences dividend pay-out of banks. With regard to internal equity, the study indicated that retained earnings positively and significantly influences dividend pay-out. The same trend was observed with reference to preference shares (quasi equity) which demonstrated a positive influence on commercial banks' dividend pay-out. However, results demonstrated that ordinary shares negatively influence bank's dividend pay-out. Methodological gaps arise on need to expand the indicators of dividend pay-out to reflect listed firms such as dividend pay-out.

Chinaemerem and Anthony (2014) examined capital structure and dividend pay-out of Nigerian firms. The period under review was between 2004 and 2010. Results indicated that debt ratio yields a negative, statistically significant impact on firm's performance. Dividend pay-out was indicated through dividend pay-out metrics namely return on assets and return on equity. Contextual gaps are identified on the need to have local study.

Kuria (2015) examined determinants of capital structure of firms quoted in the NSEs based on seven years (2003 – 2009) data of listed firms in NSE. Multiple regression and correlation analysis results demonstrated an inverse relationship between financial leverage, and dividend pay-out. The study exposes a contextual gaps recommending that further studies target the subject of capital structure in sector like insurance, banking, broadcasting and telecommunication.

## **RESEARCH METHODOLOGY**

The exploration adopted a cross-sectional research design that it compares different variables at the same time, which was the case in this study. It also provides definite information about cause and effect and that way minimize the possibility of bias. The study considered 64 firms listed at the Nairobi Securities Exchange between years 2014 and 2018 as at December 31<sup>st</sup> 2018 (CMA, 2018). The data obtained was analyzed using descriptive statistics, correlation analysis, and panel multiple regression analysis.

## **RESEARCH RESULTS**

Descriptive Statistics is characterized by data analysis in a bid to provide a summary of the data in a way that is easy to understand which might also see the discovery of patterns that are part of the data. The descriptive statistics shows that dividend payout ratio had a mean of 1.185 and a standard deviation of 8.8555, Long term debt had a mean of 0.3825 and a standard deviation of 5.942, internal equity had a mean of 0.1953 and a standard deviation of 2.909 and external equity had a mean of 0.653 and a standard deviation of 3.931.

Correlation analysis was conducted to determine the association between the study variables. The correlation matrix results show that the study exhibited a negative correlation coefficient between dividend payout and long term debt, as can be seen from the result of -0.197 the association was considered weak but statistically significant since the significant value was 0.002 which was less than 0.05. Gill, Biger, and Mathur (2011) study in American service and manufacturing firms established a positive association between debt and dividend pay-out in the service industry. The study revealed that there was a medium positive correlation between internal equity and dividend payout as shown by a value of 0.320, the significant value was 0.004 which was lower than 0.05 which was considered significant. Consistent to the findings, Raude, Wesonga, and Wawire (2015) established an association between internal equity financing and dividend pay-out.

The study found a positive correlation between external equity and dividend payout as shown by correlation coefficient of 0.146, the significant value was 0.002 which was less than 0.05 which was considered insignificant. As cited in Wong & Hiew (2005) the correlation coefficient value (r) range from 0.10 to 0.29 is considered weak, from 0.30 to 0.49 is considered medium and from 0.50 to 1.0 is considered strong.

A regression on dividend payout ratio and the predictor variables; long term debt, internal equity and external equity was conducted.

**Table 1: Model Summary**

<b>Model</b>	<b>R</b>	<b>R Square</b>	<b>Adjusted R Square</b>	<b>Std. Error of the Estimate</b>
1	.432 <sup>a</sup>	0.186	0.161	0.6727

R also referred to as the correlation coefficient provided the existing association between the research factors. The outcome reveals that there existed a weak association between the variables of this research as shown by 0.423. The adjusted R<sup>2</sup>, which is the coefficient of determination, showed that 16.1% of the variations within the dividend payout decisions were explained by the independent factors. Other predictors not included in the model account for 83.9% of the variations in dividend payout decisions.

**Table 2: ANOVA**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	6.243	3	2.081	5.578	.003b
	Residual	117.868	316	0.373		
	Total	124.111	319			

(Critical value = 2.6)

The table showed that the population parameters significance level was at 0.003 revealing that the data can be used to make inferences as the p value was 0.05. The overall model relationship was considered significant since F calculated (5.578) was higher than the F critical (value = 2.633) at 5% level of significance.

**Table 3: Coefficients**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.603	1.103		4.173	0.002
	Long term debt	-0.119	0.042	-0.106	-2.833	0.012
	Internal equity	0.141	0.037	0.125	3.811	0.001
	External equity	0.137	0.042	0.118	3.262	0.001

$$Y = 4.603 - 0.119X_1 + 0.141X_2 + 0.137 X_3$$

On the regression model it was noted that when all independent variables were held to constant zero dividend payout would be at 4.603. A unit increase in long term debt would reduce dividend payout decisions with 0.119 units. Consistently, Mallick and Yang (2015) revealed that high debt- to- equity ratio reduces both dividend pay-out and productivity. This implies that debt financing (bank loans) has adverse effects on dividend pay-out. The result of the study are consistent to the findings of Kubai (2016) who focused only on capital structure on performance of manufacturing firms that total debt had a negative association with dividend pay-out. The findings were however inconsistent to those of Gill, Biger, and Mathur (2011) who found a positive association between debt and dividend pay-out in the service industry in American firms.

A unit increase in internal equity would lead to 0.141 units increase in dividend payout decisions. Similar findings were established by Okumu (2016) who looked into capital structure and dividend pay-outs of commercial banks in Kenya and the results indicated that internal equity, (retained earnings) positively and significantly influences dividend pay-out. Consistently Njagi, Kimani, and Kariuki (2017) established that that equity finance had a positive relationship to financial performance of the SACCOs.

The findings show that a unit increase in external equity would lead to 0.137 increase in dividend payout decisions. The findings were however inconsistent to those of Okumu (2016) who revealed that ordinary shares negatively influence bank's dividend pay-out. The inconsistency may be due to the fact that the current study assessed capital structure and dividend pay-out of all the firms listed in NSE as opposed to only the commercial banks.

Comparison of the predictor variables on whether they had a significant effect on the dependent variable was done by comparing the probability value with  $\alpha = 0.05$ . When the value was lower than 0.05, the variables were concluded to be significant and vice versa. All the predictors were found to significantly affect dividend payout decisions since their probability values were less than  $\alpha = 0.05$ . Consistently other researchers such as Chinaemerem and Anthony (2014); Raude, Wesonga, and Wawire (2015) and Kuria (2015) found the predictors significant while inconsistently while Musila (2015) found equity insignificant predictor on dividend pay-out.

## **CONCLUSION**

The study established that there was a negative correlation between long term debt and dividend pay-out decisions among firms listed at Nairobi Securities Exchange, Kenya. The study thus concluded that an increase in long term debt would reduce dividend decisions to a significant extent.

The exploration established that there was a medium positive correlation between internal equity capital and dividend payout decisions. The conclusion was that an increase in internal equity would lead to an increase in dividend payout decision to a significant extent.

The study determined that there was a positive correlation between external equity and dividend payout decisions. The study concludes that an increase in external equity capital would lead to an increase in dividend payout decisions to a significant level.

## **RECOMMENDATIONS**

The study established that long term debt had a significant negative impact on dividend payout decisions among listed firms at Nairobi securities exchange, Kenya. This implies that when long term debt increases the dividend payout decrease. The study hence recommends that long term debts should be maintained a low level to prevent a decrease in the dividend payout decision.

The study also recommends that firms should raise capital first from earnings then debt and firms also should prefer internal finance first before considering external finance. Profitable firms can use earnings to fund investments and hence less need for long term debts.

This study established that internal equity and external play a key role in determining dividend payout decisions for the listed firms. This study therefore recommends that the listed firms should observe their policies dealing with the equity to improve on their dividend payout decisions.

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