FIRM FINANCIAL CHARACTERISTICS AND DIVIDEND PAYOUT OF LISTED INSURANCE COMPANIES IN NAIROBI SECURITIES EXCHANGE

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International Academic Journal of Economics and Finance (IAJEF) | ISSN 2518-2366

Received: 11th January 2024

Published: 13th February 2024

Full Length Research

Available Online at: https://iajournals.org/articles/iajef_v4_i1_195_217.pdf

Citation: Mogire, R. K., Muturi, W. M. (2024). Firm financial characteristics and dividend payout of listed insurance companies in Nairobi Securities Exchange. *International Academic Journal of Economics and Finance, 4*(1), 195-217.

ABSTRACT

Firm characteristics are known by ensuring security of financial assets and liquidity dealings. All firms are mostly propelled by profit generation in their day-to-day operations. The amount generated can be used for debt servicing, acquire new tangible and non-tangible assets, finance working capital needs or be distributed to ordinary shareholders. There are competing issues amongst management as they strive to share the proceeds to the ordinary shareholders. Hence, the link of firm financial characteristics and dividend payout was explored. Specifically, the influence of leverage, liquidity, profitability and firm size on dividend payout was evaluated. The study was based on Modigliani and Miller hypothesis, agency theory. The data was retrieved from annual financial statements from 2011 to 2020. Univariate and multivariate statistics were applied for data analysis. Thus, listed insurance companies are undertaking investments in businesses that are maximizing shareholders wealth. Listed insurance companies are known by positive growth in firm size signals maximization of shareholders wealth. The study recommended that with positive significant effect of liquidity on dividend payout of listed insurance companies, there is need for examination of working capital management by respective listed firms to optimize value contribution. With positive significant effect of profitability on dividend payout indicated that, listed insurance companies are undertaking business opportunities which are yielding positive returns for all stakeholders. Hence, there is need for listed insurance firms to deploy investment strategies that not only maximizes shareholders wealth but also enhances odds of organization sustainability. Thus, there is need for listed insurance companies to pursue investment opportunities.

INTRODUCTION

Financial management is multifaceted with key issues revolving around financing decision, working capital management, investing decision and dividend policy decisions (Ndili & Muturi, 2015). In deed all these decisions are geared towards maximizing shareholders wealth and profit. To achieve the duo there is need for a clearly choreographed approach to be followed when selecting financing alternatives to adopt since excessive borrowing may mean long-term or short-term commitment on interest payments while excessive use of equity financing may mean there are heavy burdens on dividend payment to the firm which may limit firm's capacity to invest and enjoy availability of financial slack (Jiang & Jiranyakul, 2013).

All firms are mostly propelled by profit generation in their day-to-day operations. The amount generated can be used for debt servicing, acquire new tangible and non-tangible assets, finance working capital needs or be distributed to ordinary shareholders. There are competing issues amongst management as they strive to share the proceeds to the ordinary shareholders; they always

have to answer key questions such as how much to pay? How to pay? Why pay? (Tahir & Mushaq, 2016). These questions can be easily answered by dividend policy adopted by each listed company. According to Amidu and Abor (2006) dividend policy strives to send positive signals to current and potential investors through consistent payment of dividend. Indeed, Tahir and Mushaq (2016) argued that any change on dividend decision is always reflected in dividend policy more so whenever negative news on dividends are relied stock prices moves in downward trajectory and vice versa. Dividend payout is a paramount component mostly considered during business valuations.

Dividend payout is a controversial issue amongst organizations, financial analysts, researchers, investors and other stakeholders. Majorly all are concerned on how profits generated are to be distributed and how much is worth retaining for future investment. Amongst ten mainly unresolved issues in corporate finance, dividend policy has a stake (Brealey, Mohantty & Myers, 2012). Indeed, earlier empirical scholars such as Black (1976) purported that the more dividend policy is explored the higher the escalation in its puzzle value since more discovery on its several disjointed components are made.

According to Badu (2013) there is no unified dividend policy on all firms and is not achievable since there is no time when all companies will have uniform taxation, homogenous regulations, operate in similar industry and be subjected to same economic and political environment. In fact, recent empirical scholars have documented that every corporation not only have its own unique dividend policy but also, they differ across economies (Ahmed, 2015).

First, Kenya is moving positioning itself in the investment hub in Africa as well as improving in its global rating in regard to establish a business enterprise. Moreover, the Kenyan capital market has developed so fast by attracting several companies which have been listed in different sectors (NSE, 2017). Even though, studies in developed economies have consistently supported constant dividend policy, it will be interesting to examine Kenyan trend more so after the introduction of corporate governance guidelines in 2002.

Statement of the Problem

Dividend payout within a firm is not only important to a firm due to it's responsive to financing choices but also its enquiry may create a better understanding of sources of finance and dividend decisions (Anouar, 2012). Moreover, dividend payment is a strategic managerial approach since its payment signals nature and state of listed company performance (Ndili & Muturi, 2015). Owing to its importance both empirists and theorists have endeavored to show its significance in a firm. Despite of their efforts there are not coherent and the problem seems to be a going concern having metamorphosis cycle for long. For example, Modigliani and Miller in 1961 did not find any value creation from financing option adopted by a firm in a perfect market. In fact, dividend ought to be paid only when investment returns exceed overall firms cost of capital (Tahir & Mushaq, 2016).
This approach has been declared to be too simplistic and cannot be the sole explanation of company's dividend payout. Moreover, market perfection is just an ideal situation since capital markets are associated with information asymmetry, insider trading and transaction costs amongst

others. These imperfections have impact on relevancy of dividend payout (Anouar, 2012). For a specific firm, listed imperfections may hinge from leverage decisions, liquidity position, growth opportunities and investors behaviors which may be applied to un-puzzle dividend puzzle.

Furthermore, the development of dividend policy has co movement with corporate development (Tahmir & Ahmed, 2016). In fact, it has significant relationship with financial market development (Anouar, 2012). Historically corporate managers attributed dividend payout to fulfill shareholders needs and any inverse change on dividend payout had to be avoided to cushion share prices (Rehman &Takumi, 2012). Moreover, in instances of irregular financial reporting dividend payout was a good corporate performance as compared to prevailing market conditions.

Despite of numerous studies registering inconsistent contextual findings, the replication of their findings on un-balanced data within the period on listed insurance companies after the promulgation of new constitution calls for an empirical examination. This study was important since most of these studies despite of them drawing panel data few have justified choice of modelling approach through examination of diagnostic tests. Secondly, most of these studies had been undertaken in specific listing segment which may limit the applicability of their findings to specific sectors of the economy. Thirdly, most of these studies have considered balanced data and there are possibilities of some companies being delisted and allowed back in the trading floor within the period under investigation. Moreover, insurance companies have unique industry characteristics that may have not be considered while modelling.

Research Objectives

General Objective

The main objective of this study was to examine the influence of firm financial characteristics on dividend payout of listed insurance companies in Nairobi Securities Exchange.

Specific Objectives

The specific objectives for the study were:

i. To determine the influence of leverage on dividend payout of listed insurance companies in NSE.
ii. To establish the influence of liquidity on dividend payout of listed insurance companies in NSE.
iii. To find out the influence of profitability on dividend payout of listed insurance companies in NSE.
iv. To determine the influence of firm size on dividend payout of listed insurance companies in NSE.

Hypotheses of the Study

The study sought to examine the following hypotheses:

i. **H_0:** Leverage has no significant influence on dividend payout of listed insurance companies in NSE.

ii. **H_0:** liquidity has no significant influence on dividend payout of listed insurance companies in NSE.
iii. **H_0:** Profitability has no significant influence on dividend payout of listed insurance companies in NSE.
iv. **H_0:** Firm size has no significant influence on dividend payout of listed insurance companies in NSE.

LITERATURE REVIEW

Modigliani and Miller Capital Structure Irrelevance

The theory was developed in (1958). It argues that that in a market where there is free flow of information then all stakeholders ought to access it an no extra cost. Moreover, financing approach adopted by a firm have nil contribution on its value that is dependent on its asset class. To attain financing optimality then there needs to be a balance between interest costs and floatation costs associated with issuing new debt. Further, they purported that profitability and risk are firm value determinants and not capital structure. Indeed, investment decision is mainly determined by the arbitrage opportunities which exist in any viable investment opportunity. Therefore, investors will tend to dispose share of highly valued entities and invest in underpriced companies (Mwangi, 2016). Due to investors' rationality behavior Modigliani and Miller (1958) purported that there exists an inverse relationship between cost of equity and gearing ratio and the investors are unwilling to take any risk which they cannot be compensated. In case when tax rate is zero, then it will be hard for any firm to obtain optimal capital structure. Further, Alifani and Nugroho (2013) argued that there are high chances of using debt financing because of the advantages associated with corporate taxes. The major drawback of this theory is argument that firms can operate in absence of transaction costs. The theory was appropriate for the study because there was need to evaluate the value of firm in regard to financing choice. Indeed, an increase in market to book value ratio of listed companies may trigger increase in firm value and consequently enhance firm's ability to borrow. Debt financing would demand for regular commitments in servicing of loans that may have effect on available cash for payment of dividends.

Agency Theory

Agency theory was developed by Jensen and Meckling (1976) and it argues that corporate entities are run by management that acts on behalf of its shareholders. Dividend decisions should be made by all stakeholders to minimize odds of conflicts associated with changes that may not be favorable among all parties. Notable stakeholders need to include investors whose primary goal is wealth maximization, management who may be interested with salaries and corporate benefits and government entities that aim at enhancing level of tax compliance. Government and management increased amount would erode odds of dividend payment.

Agency problem can be perceived as the sharing capacity of risk among different stakeholders who ought to cooperate to generate win-win situation (Wilson, 1968). Stakeholders in an organization have different levels of risk appetite that may have implications on their actions. Principal stakeholders invest capital and undertake risks for economic value while agents aim their private benefits. There is need for examination of risk preferences to optimize value of their investment. Agency theory was reshaped by Ross (1973) and Mitnick (1975) as they perceived conflicts are associated with incentives and organization structure. Further, they argued decision made does not

affect only firms but societies as well. Institutional approach of agency theory aims in understanding real world behavior.

The theory was appropriate for the study since there is need for concurrence with objectives of all stakeholders in management of liquidity. Prudent liquidity management would help corporate entities to maximize shareholders wealth. The management of current assets and current liabilities ought to minimize the likelihood of incurring huge financing costs that may hinder dividend payment.

Conceptual Framework

According to Sekaran and Bougie (2013) a conceptual is a diagrammatic representation showing a hypothesized relationship between study variables. Moreover, Kothari (2014) perceived it as a schematic framework depicting the relationship between independent variables, moderating variables, mediating variables and dependent variables. In this study its hypothesized that dividend payout among listed insurance companies is dependent on leverage, liquidity, profitability and firm size. Leverage will be measured as ratio of total debt to equity, profitability as market value to book value, liquidity as ratio of current assets to current liabilities and firm size as natural logarithms of total assets.

Independent Variables

Dependent Variables

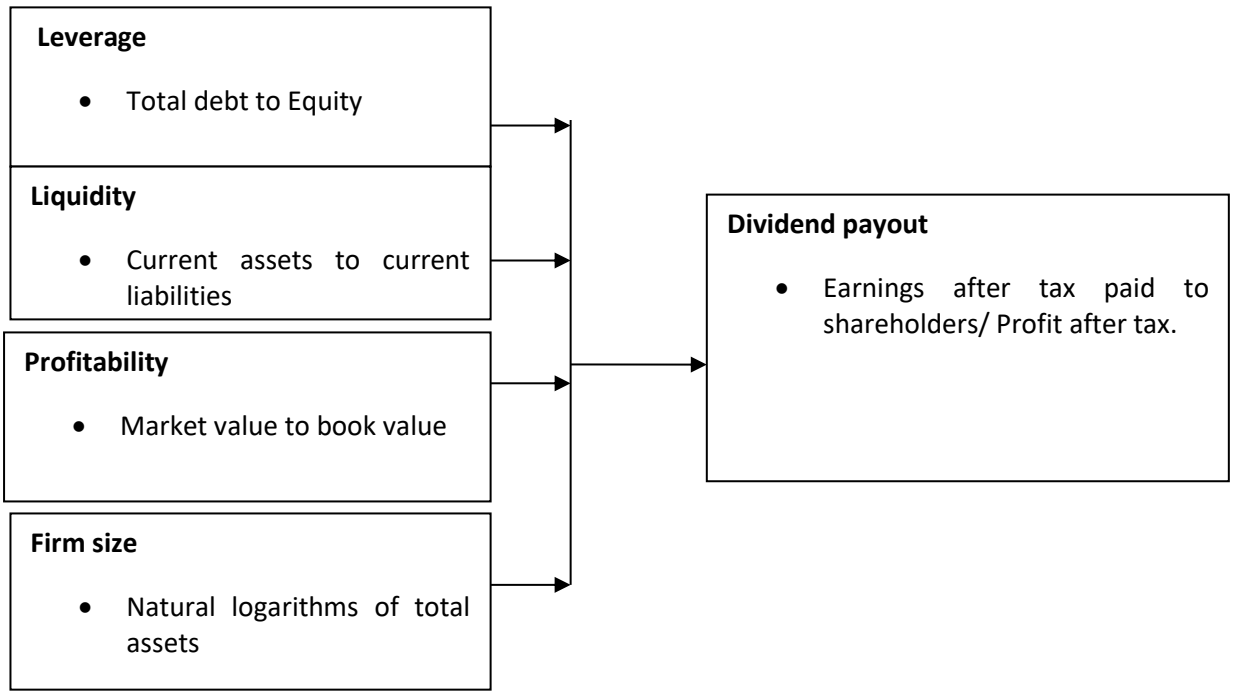

Figure 2.1 Conceptual Framework

Empirical Review of Literature

Leverage and Dividend Payout

An Indian case to investigate determinants of dividend payout was carried out by Labhane and Das (2015). Through correlation research design and purposive sampling technique a sample of 239 companies which were trading from 1994 to 2013 were considered. Trend analysis revealed variations in amount of dividend which was paid with decline trends registered during periods of financial crisis. An inverse relationship was reported amongst those firms which had high leverage and had more profitable investment opportunities. The results of this study supported signaling hypothesis, pecking order theory, firm life cycle and they did not support agency theory.

A comparative analysis on capital structure, cost of debt and dividend payout between New York and Shanghai securities exchanges was carried out by Jiang and Jiranyakul (2013). In general, multiple regression analysis revealed that although debt financing, equity financing and cost of debt had significant influence on dividend payout in New York they had no influence in Shanghai securities exchange. It was recommended that those companies which were listed in China should diversify their financing alternative as such to boost investor's confidence.

A Pakistan case to examine the antecedents of dividend payout was carried out by Ahmad and Muqaddas (2016). The study hypothesized that financial efficiency, safety, risks and profitability. Financial efficiency was operationalized as interest ratio, safety was measurement of investment to total assets, risk was measured as non-performing loans to gross loans and profitability was measured as return on assets. Dividend payout was positively affected by financial efficiency and profitability. While the other factors had negative effect.

Musiega et al., (2013) studied dividend policies of non-financial companies listed in NSE. Descriptive research design was adopted in the study and 30 non-financial companies which were listed from 2007 to 2012 were purposively selected. Profitability, growth opportunities, liquidity and current earnings were assumed to have influence on dividend payout. Firm size and business were used to moderate the relationship. Both regression and correlation analysis were used to analyse the data. Results revealed that dividend policies were dependent on profitability, growth opportunities and liquidity.

Nnadi, Wogboroma and Kabel (2012) investigated determinants of dividend payout ratio in African securities markets. The study adopted correlation research design. Regression analysis was applied to analyse the data. There was negative contribution of leverage, agency cost and positive of age and dividend payout.

Farahani and Jhafari (2013) examined the impact of financial leverage on dividend payout of food and beverage listed companies in Tehran securities exchanges. Univariate and multivariate techniques analyzed the data. Results of the study indicated that there was a positive effect of

financial leverage on dividend payout of food group listed companies in Tehran securities exchanges. Odum and Odum (2017) examined the effect of financial leverage on dividend policy of selected manufacturing companies in Nigeria. The study revealed that long-term leverage has positive significant effect on firm dividend policy. Further, there was an effect on the interaction of age and profitability with dividend payout. It was recommended that there is need for consideration of the financial leverage prior to making investment decision.

Emmanuel, Jacob and Mure (2022) studied the effect of financial leverage and dividend policy on share value of quoted oil and gas companies in Nigeria. The study documented effect of financial leverage on share value. Further, there was a statistically positive effect of dividend policy on share value. It was concluded that share value was contingent to dividend payout policy. The study presents methodological gaps since it did not carry out diagnostic tests prior to modelling.

Asif, Rasool and Kamal (2018) examined the impact of financial leverage on dividend policy in Karachi securities exchange. Results of the study indicated that there was an inverse statistically significant effect of financial leverage on dividend policy. The study presents methodological gap since it has bigger sample as compared to the number of listed insurance companies in Nairobi Securities Exchange.

Liquidity and Dividend Payout

Olang, Akenga and Mwangi (2015) studied causality of liquidity and dividend payout. A sample of 30 companies was considered purposively. Dividend payout ratio was affected by profitability, working capital and free cash flows. There was call for examination of working capital so as to optimize performance of listed firms. The study may have considered the examination of causality prior to modelling.

Ahmed (2015) investigated the impact of firm characteristics on dividend payout policy amongst United Arab Emirates banking sector. Causal research approach was adopted and 18 banks selected purposively. Though, liquidity had positive impact, profitability inversely affected dividend policy. The business environment for UAE is different from Kenya hence there are aspects that may indirectly impact dividend policy in the two countries.

A case of dividend payout policy in NSE was documented by Odawa and Ntoiti (2015). Descriptive research approach was applied and 11 banks considered for data gathering. Though, dividend payout ratio was negatively affected by liquidity, positive effect was contributed by leverage and profitability. Banking and insurance sector have different industry specific characteristics hence the need for a study drawing data from insurance sector.

Jagongo (2014) studied antecedents of dividend payout of agricultural companies in NSE. Research design applied was causal and data collected from 2005 to 2010. In agricultural sector dividend was dependent on firm size and leverage and it was inversely affected by growth opportunities. The study may have considered reporting on assumptions in favor of analysis approach adopted. There

were contextual differences since agribusiness is dependent on climatic conditions that may not have direct impact on insurance companies.

Kajola, Desu and Agbanike (2015) studied the factors affecting dividend payout policy decisions of Nigerian listed firms. Correlation research design was applied and panel data collected from 1997 to 2011 among 25 non-listed financial companies. Univariate and multivariate statistics analyzed the data. Results of the study indicated that profitability, leverage and firm size have statistically significant effect on dividend policy decisions of listed financial companies in Nigeria. The study pose contextual gaps since there are firm specific characteristics in insurance sector that differs from Nigerian listed companies.

Yusuf (2019) examined antecedents of dividend policy among Nigerian listed companies. Causal research design was applied and secondary data sourced from annual financial statements of 299 listed companies from 2002 to 2014. Univariate and multivariate statistics analyzed the data. Findings indicates that dividend policy was statistically contingent to profitability, size, liquidity, financial leverage and growth opportunities. The study may have considered fitting random, fixed or pooled effects model rather than relying on ordinary least squares in exclusion of Lagragian multiplier test.

Profitability and Dividend Payout

An investigation on the determinants of dividend payout ratio in Karachi securities exchange was carried out by Rehman and Takumi (2012). Univariate and multivariate were applied for data analysis. There was a positive effect of leverage and profitability on dividend payout while growth opportunities negatively affected it. The findings may not be generalized in Kenya because the state of development of securities market in the two countries is not uniform.

An examination of antecedents of dividend payout in NSE was documented by (Kosgei, 2017). All listed firms in 2014/15 were considered and correlation design applied. Univariate and multivariate techniques analyzed the data. Dividend policy was contingent to investment decision. There was need for consideration of industry specific characteristics of listed firms so as to customize findings. Furthermore, the study may have considered reporting on assumptions checked to guide choice of modelling approach.

Reddy and Kathari (2021) studied the effect of dividend payout on profitability of information and communication technology firms in India. It was indicated that dividend payout had positive statistically significant effect on profitability of information and communication technology firms in India. The study may have posed methodological gaps since it never reported on diagnostic tests that justified the choice of their modelling.

Ferdi and Tobing (2018) studied the effect of liquidity, profitability and investment decision on dividend policy of firms listed in Indonesia securities exchanges. Correlation research design was applied and secondary data collected among 100 non-financial listed companies. Univariate and logistic regression were used for data analysis. Results indicates that there was a positive effect of

investment opportunity, profitability and liquidity on odds of a firm paying dividends. Further the accuracy rate of grouping firms into group of firms paying dividend and odds of not paying dividends has explanatory variable of 87%. The study considered data from non-financial listed companies while currently only listed insurance companies were considered and they have different industry specific characteristics.

Firm Size and Dividend Payout

Banerjee (2017) studied antecedents of dividend payout of listed technology firms in India. Correlation design was applied and 30 firms considered purposively. Data was analyzed through univariate and multiple regression modelling. Although, profitability and firm size had contribution on dividend payout it was not significant. Jóźwiak (2015) found that leverage and liquidity negatively affected dividend payout policy. Further, it was noted that profitability and firm size positively contributed on dividend policy. The study may not be replicated in Kenya since Polish and Kenya listed firms are operating in different economic environment.

Tabari and Shirazi (2015) studied antecedents of dividend policy of listed firms in Tehran securities exchange. Correlation research approach was applied. Five-year period data was gathered from 2008 to 2013. Findings indicated that dividend policy was dependent on tangibility, firm size, growth opportunities and profitability. The study may not be replicated in Kenya since listing is in different operating environment and there was need for consideration of global financial crisis of 2008 while modelling.

Periyathampy (2012) found that dividend payout was contingent to sales growth, growth opportunities, liquidity and negatively affected by cash flows and leverage. The study considered all firms listed and did not consider industry specific attributes that may have impacted on dividend payout policy. Kajola, Desu and Agbanike (2015) found that dividend payout was significantly affected by profitability, firm size while liquidity and leverage had negative contribution. Insurance companies are financial institutions thus results from non-financial sector ought not to be generalized. Soondur, Maunick and Sewak (2016) revealed positive relationship between EPS and dividend payout ratio. Net income inversely affected dividend payout.

Hasan (2020) studied the effect of firm size on dividend policy of European firms during financial crisis. Causal research design was applied and a sample 5377 from 2001 to 2017. Univariate and multivariate statistics analyzed the data. Tobit findings indicated that that small firms have higher levels of information asymmetry to pay lower dividends as compared to small firms. Further, small firms disgorge lower cash to their shareholders in the global financial crisis period. Further, there was no difference on the impact of firm size on dividend policies differing in the European debt during and after financial crisis. It was recommended that investors ought to evaluate uncertainties and firm size so as to make prudent decision concerning the firms, they can invest in.

Critique of Literature

From the theoretical literature there is no conclusion on how firm financial characteristics may affect dividend payout among listed insurance companies. From MM hypothesis adoption of leverage or not have no effect on dividend payout of listed companies. Agency theory postulates that the management should always aim at maximizing shareholders wealth and minimize conflict that would erode likelihood of earning dividend. Though, signaling hypothesis maybe adopted to support the need for information dissemination to different stakeholders in an organization. There is need for information dissemination to different stakeholders in an organization. Furthermore, measures adopted to enhance organization earning capacity should be disclosed to members of the public. The choice of dividend payout should comply with respective organization client base. The clients in respective listed insurance companies may be determined by firm size. Firms that are small may have to draw back higher proportion that may minimize dividend payout.

Available empirical literature on the influence of firm financial characteristics on dividend payout has been drawn from different continents. For instance, Labhane and Das (2015) drew their data from companies listed in India. The study contradicted agency theory and supported signaling hypothesis. Moreover, these findings may not mirror a Kenyan perspective whose listing is in different segments. Khan and Ahmad (2017) drew data from pharmaceutical companies and they failed to report on diagnostic tests. This may have enhanced the odds of drawing biased conclusion. Jiang and Jiranyakul (2013) drew data from New York whose level of data management may differ from developing economies.

Research Gaps

According to Musiega et al., (2013) dividend policies in Kenya are affected by profitability, growth opportunities and leverage. The findings are from non-financial listed companies whose industry specific risks are heterogenous to financial companies. Moreover, Nnadi et al., (2012) documented inconclusive findings since some were positive and others negative. The study should have considered country specific risks since African countries have different aspects that may have impact on organization performance. Olang et al., (2015) should have considered carrying out meta-analysis and comparing effect of profitability, working capital and free cashflows on dividend payout. Ahmed (2015) should have reported on regression diagnostic tests prior to fitting regression models.

Odawa and Ntoiti (2015) should have considered drawing data over a long period of time because there were only 11 listed banks. Waswa et al., (2014) should have adopted either fixed or random effects regression model since they had drawn panel data. Rehman and Takumi (2012) findings differ from Kenyan perspective due to heterogeneity on level of economic and political development. Bas (2013) may have considered drawing data from more than 11 listed companies. Gill et al., (2010) considered firms in USA that may have been guided by ease of access of financial data as compared to Kenya. The study drew data from different listing sectors.

Summary of Literature

Theoretically the study was based on MM hypothesis, agency theory, signaling hypothesis and clientele dividend policy. Empirical literature review has indicated existing conceptual, theoretical, methodological and contextual gaps. From the critique and research gaps detailed discussion on existing gaps and how the current study will bridge them have been discussed.

RESEARCH METHODOLOGY

The study adopted causal research design. Target population is a complete collection of all individuals or elements under consideration (Oso & Onen, 2009). The study considered all six listed insurance companies that include British American Investments Company, CIC insurance group, Liberty Kenya Holdings limited, Jubilee holdings limited, Kenya Reinsurance Corporation and Sanlam Kenya plc. Since the companies are only six, census of them was applied and secondary data collected from 2011 to 2020. The study used secondary data collection sheet as a principal instrument for data collection. The data collected include leverage, liquidity, profitability, firm size and dividend payout from the companies' audited financial statements.

RESEARCH FINDINGS AND DICUSSIONS

Descriptive statistics adopted in the study were measures of central tendency and dispersion. Findings in Table 4.1 indicate that the average dividend payout (earning per share) of listed insurance companies was 8.39 with a minimum of -14.21 and maximum of 54.26. Dividend payout among listed insurance companies was not normally distributed as indicated by skewness coefficient of 1.80. The findings concurred with clientele dividend policy since the amount of dividend paid may have been in line with type of shareholders in respective listed insurance company. None normality of data was in congruence with Githaiga, Muturi and Olweny (2020) who alluded that financial data is rarely normally distributed due to heterogeneity of respective firm's financial attributes.

The average leverage of listed insurance companies in Nairobi Securities Exchange was 4.26, with some firms being highly geared. There was no normality of gearing among firms, since the p value for Jarque-Berra coefficient was less than 0.05. Differentiation in leverage of listed insurance companies was in conformity with Wairimu, Muturi and Olouch (2019) who alludes that listed non-financial companies have differing proportionate of leverage in their financial structure which is contingent to industry specific sector. Furthermore, they allude that the demand for short and long-term debt in listed companies is contingent to industry specifications with those firms in agricultural sector preferring conservative financing as compared to aggressive approach in the telecommunication sector.

The mean liquidity of listed insurance companies was 2.25, this depicts that most firms are holding excess of current assets in relation to current liabilities. The current liquidity approach exceeds the recommended threshold of 2:1. These findings confirms Olang et al., (2015) who asserts that dividend policy in the insurance sector is contingent to working capital and profitability. Similar, proposition was asserted by Ahmed (2015) who documented that dividend policy in United Arab Emirates was subject to working capital policies adopted by respective entities.

The mean profitability was 7.57 with a minimum of 3.43. Surprisingly, the profitability of listed insurance companies was normally distributed since the p value of its Jarque-Berra was > 0.05 (0.7). This indicates that listed insurance companies made almost the same amount of profit. The results confirmed Rehman and Takumi (2012) who argues that firms operating in the same sector have

higher chances of generating almost the same return. Since insurance companies offers similarly related products an increase in market share in one sector is usually with cannibalization.

The mean firm size of listed insurance companies was 10.72, with a minimum of 9.32 and maximum of 13.62. This indicates that listed insurance firms have almost the same asset base. Further, the firm size was not normally distributed since the p value for Jarque-Berra was less than 0.05. The findings support Tabari and Shirazi (2015) who argues that listed firms in Karachi securities exchange dividend policy is dependent on intrinsic and extrinsic factors.

Table 4.1 Descriptive Statistics

	Dividend Payout	Leverage	Liquidity	Profitability	Firm size
Mean	8.39	4.26	2.25	7.57	10.72
Median	1.55	3.35	1.85	7.60	10.38
Maximum	54.26	12.83	8.00	10.89	13.62
Minimum	-14.21	0.55	0.40	3.43	9.32
Std. Dev.	16.12	3.40	1.34	1.85	1.01
Skewness	1.80	1.21	2.19	0.13	1.30
Kurtosis	4.84	3.63	9.23	2.53	4.24
Jarque-Bera	40.84	15.53	145.25	0.70	20.83
Probability	0.00	0.00	0.00	0.70	0.00
Sum	503.67	255.32	134.89	454.49	643.23
Sum Sq. Dev.	15328.74	681.13	105.55	202.50	60.05
Observations	60	60	60	60	60

Trend Analysis

Further, graphical presentation was applied to elucidate the trend of dividend payout, leverage, liquidity, profitability and firm size of listed insurance companies in Nairobi Securities Exchange. Figure 4.1 indicate that Jubilee Holdings recorded the highest amount of divided payout from 2011 to 2020 though there as a decline in 2014 and the highest amount was paid 2017. In contrast, Sanlam Kenya recorded the highest negative dividend payout in 2018. All the other listed insurance companies had almost the same dividend pattern throughout the period.

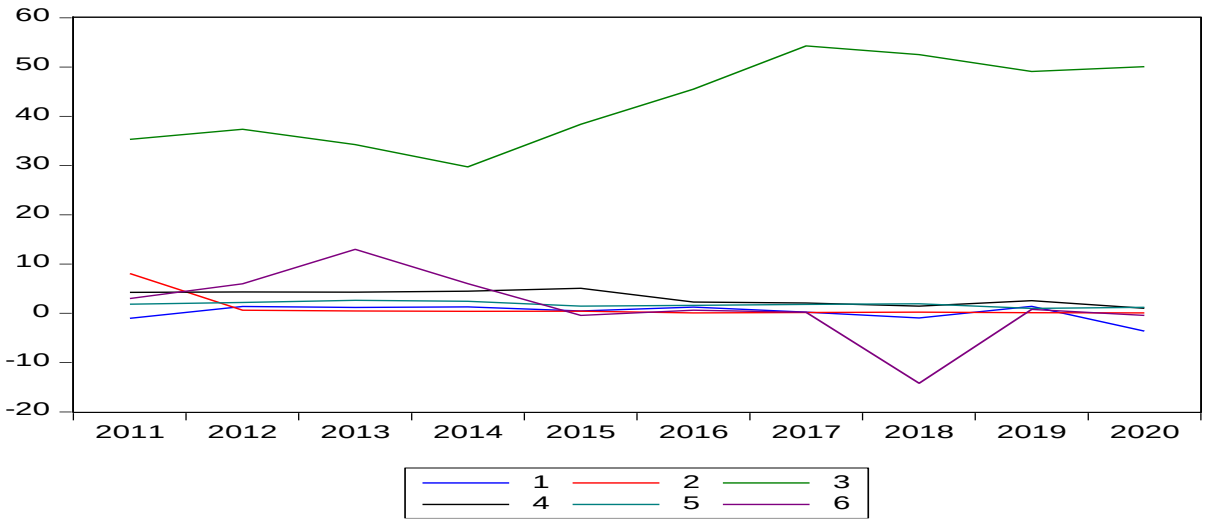

Figure 4.1 Dividend Payout Trend Analysis

Pictorial presentation in Figure 4.2 indicates that there was no constant pattern for leverage policy among the listed insurance companies. A notable trend is that Jubilee Holdings debt policy was in downward trend initially though the pattern was reversed in 2012 to 2013 and thereafter the financing policy was not in favor of debt financing. Initially, Liberty Kenya Holdings had limited use of debt though the trend was reversed from 2017.

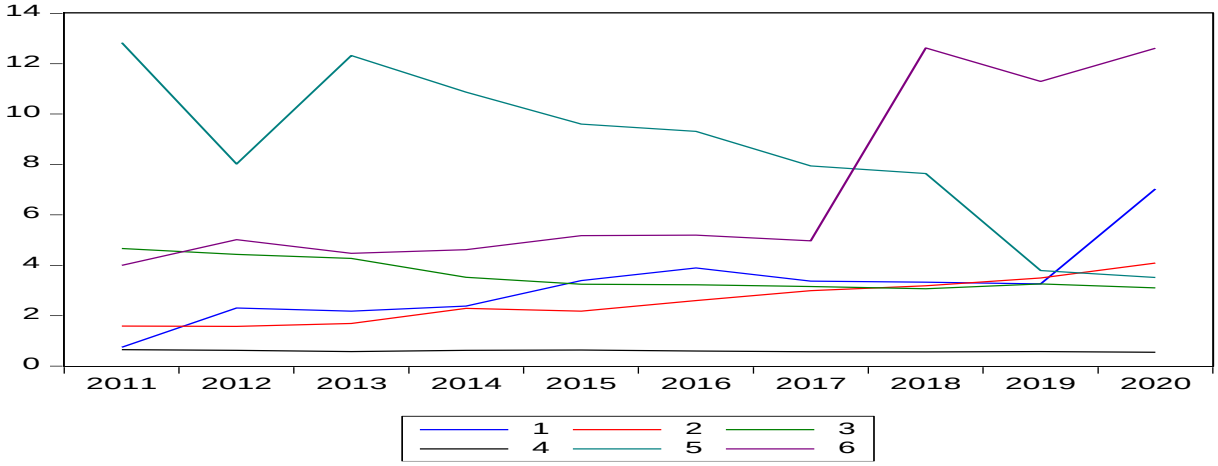

Figure 4.2 Leverage

The pictorial presentation in Figure 4.3 indicates that liquidity of listed insurance companies in Nairobi Securities Exchange was almost the same. The modal highest liquidity for most companies was noted in 2013 while the trend was reversed downward with another increase in 2015 which was reversed downward in exception of Jubilee Holdings that had the highest liquidity in 2020.

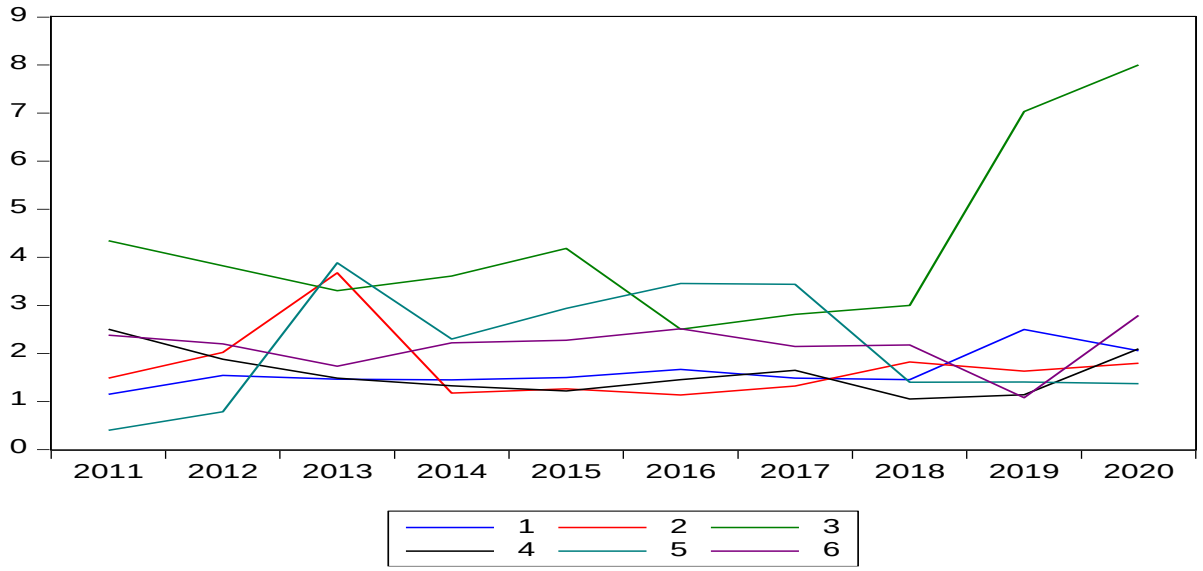

Figure 4.3 Liquidity

Concerning profitability, the most profitable listed insurance company was Jubilee Holdings while Sanlam Kenya recorded the most sporadic performance in the period under consideration. Britam Holdings recorded mixed performance with upward and downward pattern.

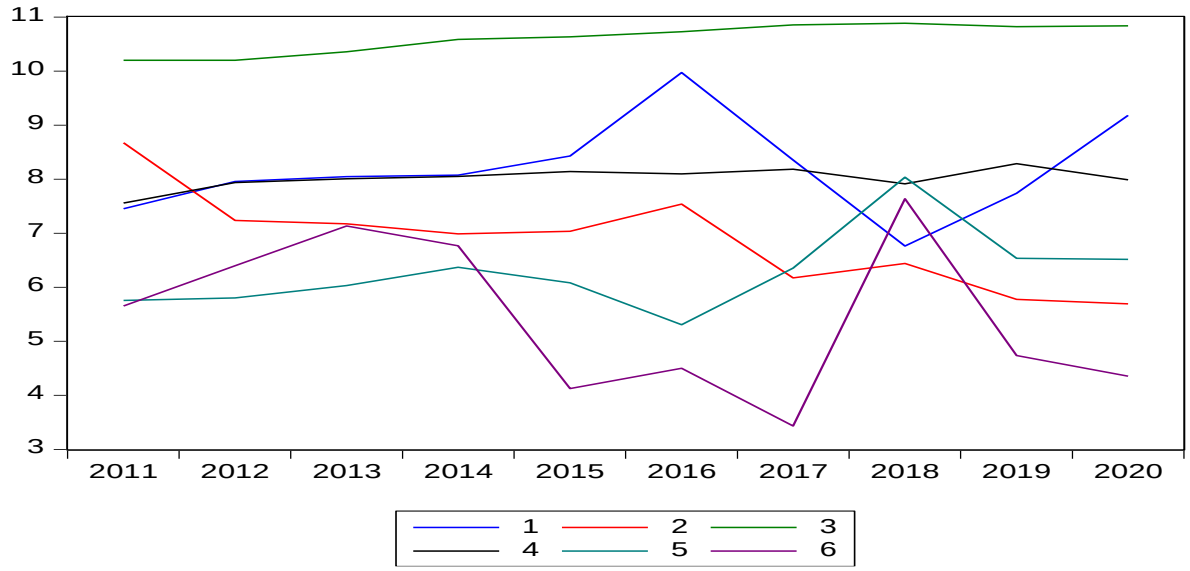

Figure 4.4 Profitability

Regarding firm size, listed insurance companies recorded positive growth of their asset base from 2011 to 2020 though some had instances of decline.

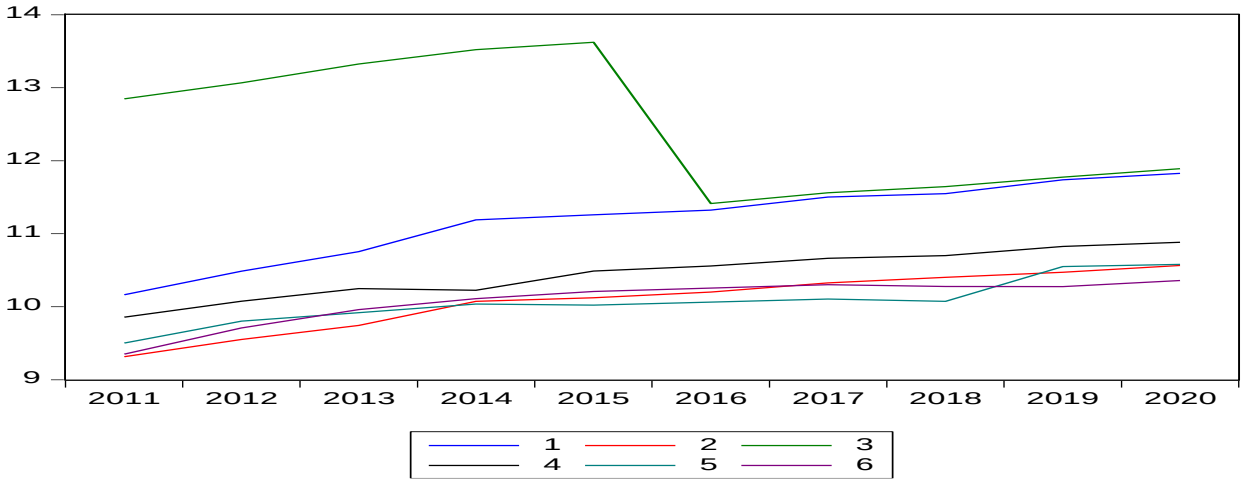

Figure 4.5 Firm Size

Product Moment Correlation Analysis

Correlation analysis was carried out to examine the strength of the influence of leverage, liquidity, profitability and firm size on dividend payout of listed insurance companies in Nairobi Securities Exchange. Results in Table 4.7 indicate that there was an inverse and not significant effect of leverage on dividend payout of listed insurance companies in NSE (rho = -0.152, p value > 0.05). The results confirm Labhne and Das (2015) who argues that leverage has inverse effect on dividend payout. This is congruent with signaling hypothesis and pecking order theory that allude firms have preference for internally generated funds since they are cheaper. Secondly, there was positive and significant influence of liquidity on dividend payout (rho = 0.670, p value < 0.05). This indicates that unit increase in liquidity increases dividend payout. The results mirrors Odawa and Ntoiti (2015) who documented positive significant effect of liquidity on dividend payout of listed banks in Kenya. Similarly, Olang et al., (2015) documented positive co-movement between liquidity and dividend payout of listed non-financial firms.

Further, profitability has positive and significant effect on dividend payout of listed insurance companies in NSE (rho = 0.727, p value < 0.05). The results are in support of agency theory that supports the pursuance of wealth maximization principle. Further, the study concurred with Musiega et al., (2013) who asserts that dividend policies in Kenya are contingent to profitability and liquidity among other aspects. In addition, there was a positive and significant effect of firm size on dividend payout of listed insurance companies in NSE (rho = 0.652, p value < 0.05). The results are in support of Kajola et al., (2015) who documented significant contribution of firm size on dividend policies.

Table 4.2 Product Moment Correlation Analysis

	Dividend payout	Leverage	Liquidity	Profitability	Firm size
Dividend payout	1				
Leverage	-0.152	1			
	0.246				
Liquidity	0.670	0.100	1		
	0.000	0.448			
Profitability	0.727	-0.407	0.408	1	
	0.000	0.001	0.001		
Firm size	0.652	-0.158	0.466	0.073	1
	0.000	0.227	0.000	0.000	

Fixed Effects on the Influence of Firm Financial Characteristics on Dividend Payout of Listed Insurance Firms in Nairobi Securities Exchange

Multiple regression model examined the influence of firm financial characteristics on dividend payout of listed insurance firms in Nairobi Securities Exchange. An r squared of 0.70, indicate that 70% of changes in dividend payout of listed insurance companies was explained by leverage, liquidity, profitability and firm size while 30% can be explained by extraneous factors excluded in the model.

The first hypothesis of the study stated that leverage has no significant influence on dividend payout of listed insurance companies in NSE. Results in Table 4.12, indicate that there was a positive and not significant influence of dividend payout of listed insurance companies ($\beta = 0.10$, p value > 0.05). The second hypothesis of the study stated that liquidity has no significant influence on dividend payout of listed insurance companies in NSE. Liquidity has positive and significant influence on dividend payout of listed insurance companies in Nairobi Securities Exchange ($\beta = 4.98$, p value <0.05). This indicates that unit increase in liquidity while holding constant leverage, profitability and firm size increases dividend payout by 4.98 units.

The third hypothesis of the study stated that profitability has no significant influence on dividend payout ratio of listed insurance companies in NSE. Profitability has positive and significant influence on dividend payout of listed insurance companies in Nairobi Securities Exchange ($\beta = 4.16$, p value < 0.05). This indicates that unit increase in profitability while holding constant leverage, liquidity and firm size increases dividend payout by 4.16 units.

The fourth hypothesis of the study stated that firm size has no significant influence on dividend payout of listed insurance companies in NSE. Firm size has positive and significant influence on dividend payout of listed insurance companies in Nairobi Securities Exchange ($\beta = 2.01$, p value <

0.05). This indicates that unit increase in profitability while holding constant leverage, liquidity and profitability increases dividend payout by 2.01 units.

The study findings confirmed Musiega et al., (2013) who found that dividend policies of non-financial companies were contingent to profitability, growth opportunities and liquidity. In contrast, Nnadi et al., (2012) documented that dividend payout ratio in Africa was inversely related to leverage and agency costs but positive to firm age. From these findings it may be deduced that young firms may have complied with pecking order theory since they may experience challenges while seeking for external sources of finance. Positive effect of leverage on dividend payout was reported in Tehran securities exchanges food sector as documented by Farahani and Jhafari (2013) clearly depicts that access to debt financing may have enabled listed firms to invest in projects whose income were higher than costs thus they were beneficial to all stakeholders. Moreover, Odum and Odum (2017) called for consideration of financial leverage whenever making investment decisions so as to benefit from interest tax shield benefits.

Further, the study supported Jagongo (2014) who found that dividend payout in agricultural listed companies in Kenya was dependent on leverage and firm size though inversely influenced by growth opportunities. Renly (2019) documented that there was a statistically significant effect of dividend policy on firm value of financial sector listed companies in Indonesia. These results are in tandem with signaling hypothesis since positive effect of dividend policy on firm value acts as a yard stick for improvement of shareholders wealth. These findings echoed Kajola et al., (2015) who documented positive statistically significant effect of dividend policy decisions on profitability, leverage and firm size in Nigerian listed companies. Similar sentiments were echoed by Yusuf (2019) who documented that profitability, firm size, liquidity, financial leverage and growth opportunities are statistically significant antecedents of dividend policy among Nigerian listed companies.

Table 4.3 Fixed Effects on the Influence of Firm Financial Characteristics on Dividend Payout of Listed Insurance companies in Nairobi Securities Exchange

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-56.32	8.75	-6.44	0.00
Leverage	0.10	0.45	0.22	0.82
Liquidity	4.98	0.69	7.18	0.00
Profitability	4.16	0.57	7.29	0.00
Firm size	2.01	0.88	2.28	0.03
R-squared	0.70	Mean dependent var		8.39
Adjusted R-squared	0.68	S.D. dependent var		16.12
S.E. of regression	9.09	Sum squared residuals		4541.62
F-statistic	32.66	Durbin-Watson stat		1.08
Prob(F-statistic)	0.00			

Summary Conclusion and Recommendations

Conclusion

The study concluded that leverage has statistically significant effect on dividend payout of listed insurance companies in Nairobi Securities Exchange. Thus, to increase dividend payout there is need to minimize reliance on debt financing. Secondly, the study indicated statistically positive significant effect of liquidity on dividend payout of listed insurance companies in Nairobi Securities Exchange. Thus, there is need for adoption of liquidity management strategies that maximizes dividend payout.

Thirdly, the study indicated that profitability has positive statistically significant effect on dividend payout of listed insurance companies in Nairobi Securities Exchange. Thus, there is need for adoption of investment strategies that optimizes investment income among insurance companies. The last objective indicated that there is a positive statistically significant effect of firm size on dividend payout of listed insurance companies in Nairobi Securities Exchange. Thus, there is need for adoption of strategies that may increase the firm size so as to enhance odds of dividend payment.

Recommendations

Profitability on dividend payout indicates that listed insurance companies are undertaking business opportunities which are yielding positive returns for all stakeholders. Hence, there is need for insurance firms to deploy investment strategies that not only maximizes shareholders wealth but also enhances odds of organization sustainability.

Positive statistically significant effect of firm size on dividend payout of listed insurance companies indicates that insurance companies are pursing increasing firm size to maximize shareholders wealth. Thus, there is need for listed insurance companies to pursue investment opportunities which are aimed at increasing shareholders and pursuance of investment projects that have positive net present value.

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