

## EFFECT OF DIVIDEND POLICY ON SHAREHOLDERS' WEALTH OF COMMERCIAL BANKS LISTED AT THE NAIROBI SECURITIES EXCHANGE

Frankline Chasha Sogomi, Isaac Ojunga Otiende and Peter Situma Sasaka  
Technical university of Mombasa, Kenya  
**Corresponding Author's** frankchasha@gmail.com

### Abstract

*The overall objective of this study was to appraise the effect of dividend policy on shareholders' wealth of commercial banks listed on the Nairobi Securities Exchange (NSE). The specific objectives were to determine the effect of a fixed rate dividend policy, fluctuating dividend payout ratio, hybrid dividend policy, residual dividend payment, and stock dividend policy on shareholders' wealth of commercial banks listed at NSE, Kenya. The dividend irrelevance theory, information signaling effect theory, bird in the hand theory, and tax preference theory were evaluated to reinforce the variables that were studied in this research. The target population encompassed the NSE-listed 11 commercial banks where the top management personnel from each of the listed commercial banks were selected as the respondents at a sample size of 86 for primary data collection using a questionnaire. ANOVA, multiple regression, and Pearson correlation analysis were utilized as the inferential statistics for additional analysis. This study utilized descriptive research design to interpret the effects of dividend policy on shareholders' wealth. The regression results for a Fixed Rate Dividend Policy, Fluctuating Dividend Payout Rate, Hybrid Dividend Policy, Residual Dividend Payment, and Stock dividend policy had a significant and positive effect on Shareholders' Wealth. The study recommends that a flexible hybrid dividend policy that can be embraced by the different stakeholders in the companies should be established and management should continue to steadily raise earnings, cash flow, and dividend payments; when determining a firm's optimal dividend policy, it is important to take its growth trajectory into account, and when creating a dividend policy, commercial banks should take into consideration several factors, including their profitability, dividend history, capital ownership structure, investment prospects, shareholder expectations, shareholder tax status, and capital market accessibility.*

**Keywords:** *fixed rate dividend policy, fluctuating dividend payout ratio, hybrid dividend policy, residual dividend payment, stock dividend policy, shareholders' wealth*

### Introduction

Dividend policy's effect on shareholders' wealth has been an avenue of perpetual debate coupled with divided opinions in the field of finance and so far, there is still no consensus established (Kyallo, 2022). Gamage and Peries (2019) found out that financial managers in Australian firms on the Australian Stock Exchange (ASX) are grappling to determine the optimal dividend policy that will enhance the benefits of dividend payment and at the same time realize the desired returns on re-investment. Needless to say, Mazur, Dang, Vo, and Thi, (2020) note that in recent years the world has faced more economic dilapidations than ever before in this current generation. Ngoboka and Singirankabo (2021) pointed out that the most appropriate payout ratio that will lead to the maximization of shareholders' wealth in the form

*Effect of Dividend Policy on Shareholders' Wealth of Commercial Banks Listed at the Nairobi* of influencing investors' perceptions and enhancing capital gains is still a puzzle in quoted firms on the Rwanda Stock Exchange (RSE).

According to Kerosi (2021), there is a favorable association between capital gains and growth in dividends. Nevertheless, the shareholders of listed firms at NSE have conflicting preferences and interests for both capital gains and dividend payments. Kamanguya, (2020) studied the effect of the stockholder structure on the dividend policy of financial firms quoted at NSE and observed that dividends are highly taxed compared to capital gains and carry a lesser taxation burden, thus inspiring control persons and managers to prefer capital gains over dividends. Contrary to this inspiration, shareholders are motivated by the receipt of current dividends and it is always their expectation to obtain dividends consistently. On the part of the shareholders, regular dividend policy is highly recommended especially in the period of the organization's stability. The management is usually faced with a dilemma in its apparent endeavor to appease both divide and at the same time uphold the focal objective of the corporation which is to maximize shareholders' wealth (Tijjani & Bello, 2019). Furthermore, Alper, Clements, Hobdari, and Porcel (2020) revealed that the interest cap control law passed in the year 2016 in Kenya has led to an increase in non-performing loans, collapse of SMEs and microfinance organizations, diminution of loan facilities, and decreased profitability of the commercial banks in the country. Ideally, the introduction of the interest rate cap was to facilitate ease of accessibility to credit, enhance returns on savings, and lessen the borrowing cost thereby spurring national economic growth. In reality, the move negated the expectations and only had a lackluster effect on economic growth.

In the recent pandemic period Annual Gross Domestic Product (GDP) report the percentage GDP growth rate declined from 5.10% in the year 2019 to -0.30% in the year 2020 before recovering and surpassing the 2019 rate to 7.50% in the year 2021. The listed firms on NSE particularly commercial banks' business cycle interruption resulted in decreased earnings orchestrated by condensed transactions and cash flow, a state that necessitated firms to subdue or to a considerable extent banish dividends as a defensive course of action to sustain the business going concern throughout and beyond the pandemic (Tinungki, et al., 2022).

In their study, Nekesa, Ouma, and Njuguna (2021) found out that directors of the banks have been in recent past tackling incompatible welfare of the shareholders which may generate an agency conflict. Dividend policies and to an extent their effects on the shareholders' wealth studied by various researchers have resulted in a conclusion that is not watertight and portrays

*Effect of Dividend Policy on Shareholders' Wealth of Commercial Banks Listed at the Nairobi* mixed outcomes in established and emerging capital markets, thus perpetuating the dividend puzzle and keeping the debate alive (Wambua, 2019). The failure to address this puzzle in many organizations concerning whether dividends affect shareholders' wealth and the most appropriate dividend policy that will generate a favorable effect on the share value and simultaneously satisfy the shareholders' interests has been an unresolved mystery among numerous corporate managers (Andabai, 2020). Lack of cordial shareholders and management compatibility of interests, coupled with sporadicity, inconsistencies, and unpredictability of dividend decisions by Kenyan Commercial banks in the recent period of economic hardship fails to form a reliable precedence in terms of whether dividend policy is relevant, the optimal dividend policy to adopt and the solution to amicably address the incompatible interests of shareholders without compromising the firm's main objective. The stiff competition in addition to the recent economic depressions and much more importantly the shareholders' conflicting anticipations regarding dividend decisions has placed the management in an administrative dilemma.

Although a few studies have been done in Kenya to examine how and whether the dividend policies affect the shareholder's value of commercial banks, there still exists a gap in achieving an optimal dividend policy that will harmonize the shareholder's divergent and incompatible expectations as well as presenting a resolution to the global, regional, and national economic risks whether systematic or unsystematic. It is in such regard that this study sought to explore and address the shareholders' conflicting interests and contribute to the debate on whether dividends affect firm value through evaluation of the effect of dividend decisions on shareholders' wealth of commercial banks listed commercial banks on NSE.

### **Objectives of the Study**

- i. To determine the effect of a fixed rate dividend policy on shareholders' wealth of commercial banks listed at NSE, Kenya.
- ii. To assess the effect of a fluctuating dividend payout ratio on shareholders' wealth of commercial banks listed at NSE, Kenya.
- iii. To examine the effect of a hybrid dividend policy on shareholders' wealth of commercial banks listed at NSE, Kenya.

- iv. To evaluate the effect of a residual dividend payment on shareholders' wealth of commercial banks listed at NSE, Kenya.
- v. To establish the effect of a stock dividend policy on shareholders' wealth of commercial banks listed at NSE, Kenya.

## **Theoretical Framework**

### **Dividend irrelevance theory**

This theory was initiated and propagated by Miller and Modigliani (M-M Hypothesis, 1961). In their assertions, they argued that in a world of information symmetry, perfect capital market structure, rational investors, no transaction costs, and no taxes, investors are indifferent about the dividend payment pattern or decision of the firm, hence, dividends are extraneous in firm valuation. Nevertheless, (Ndirangu, 2020) concluded that this theory forms its basis from the extrapolative and explicative classical manner insinuating that the model cannot be solely relied upon through the practical reflection of its assumptions. This notion is further propagated by considering the firm's investment policy as a material foundation upon which an investor can make their decisions independent of all the dividend policies (Kimutai, 2018)

According to Ndirangu, (2020), this theory is significantly criticized concerning its assumptions. The assumption of information symmetry in the share prices and investor behaviors is unrealistic since the market normally portrays in numerous ways its inherent information asymmetry. The perfect capital market structure only exists in an ideal scenario and not in reality. In the real world, investors are obliged to pay taxes, firms incur the costs of floatation and investors must part with transaction costs in their normal trading (Rangi, 2019)

In his study Kimutai, (2018) found out that most shareholders prefer dividend policy over investment policy, insinuating that a conspicuous residual dividend payment suggested in the dividend irrelevance theory is abandoned by most investors. On the contrary, firm managers advocate for capital gains over dividends hence leaning on the investment policy side. Therefore, given a working investment policy, the decision regarding the segregation of dividends and reserved earnings is irrelevant under the M-M hypothesis assumptions (Bello, Muftau, Hussainatu, & Ibrahim, 2020). This theory portrays a deficiency of pragmatism since in the current capital markets, it is virtually impossible to meet the given conditions.

However, this theory is vital in this study since it assesses the degree of the effect of residual dividend payment, on the securities of the organization and by extending to the shareholders'

*Effect of Dividend Policy on Shareholders' Wealth of Commercial Banks Listed at the Nairobi* wealth. The theory also emphasizes the need to re-invest funds in other profitable projects to maximize the shareholders' wealth in the form of capital gains and minimize the taxation burden of dividends payment. Since this theory advocates for residual dividend policy as an optimal an option, it underpins this dividend policy that is considered in the study.

### **Information signaling effect theory**

Stephen Ross (1980) was the proponent of this theory that emanated from the fact that dividend policies and to an extent dividend payout ratios are heterogeneous in different firms (Kimutai, 2018). Bulla, (2021) found out that the signaling hypothesis implicates evidence concerning a firm's forthcoming returns in the form of a signal originating from dividend declarations, whether about the stability or volatility of dividend changes. Furthermore, in line with the hypothesis, Muriungi, Mwangi, Kinoti, and Okiro, (2021) determined dividend payments by listed firms signaled a strong positive correlation with the shareholders' value. Dividend policy can be employed as a very effective medium of communicating the desired information by financial managers to the investors and the market at large (Odinya, 2018).

A rise in the dividend payout ratio serves to signal that the firm's management is hopeful of forecasted higher returns to supplement the gap created by the payout increase. However, a decline in the dividend payout ratio is an indication that the firm has worthwhile positive Net Present Value projects to undertake (Kimutai, 2018). The fluctuation in the dividend payout rate may also be interpreted by investors from a very subjective angle depending on their perceptions and perspectives as echoed in the themes of behavioral finance.

Market securities are intangible assets whose value can mainly be derived from prevailing information. Information asymmetry and the Efficient Market Hypothesis (EMF) are critical variables in this theory as the extent to which the information is conveyed and the investor's perceived degree of rationality determines their reaction to investment (Yasar, Martin, & Kiessling, 2020). The existence of a deficiency in information parity where the managers are normally privy to the inside information of a firm against the investors creates a scenario where the investors rely solely on decisions and policies made apparent to them by the management as an implication of signals that can inform their rational choices. This theory is imperative to the study since capital gains attract a lesser tax than dividends more so cash dividends, that notwithstanding, the management can still declare and issue higher dividends as an optimistic signal of the firm's performance and stability going into the future (Odinya, 2018). Regarding this narrative, managers should always be extremely prudent in their decision-making process

*Effect of Dividend Policy on Shareholders' Wealth of Commercial Banks Listed at the Nairobi* regarding dividend payout rate determination that will conform to the main objectives of the firm despite the waves of speculation in the capital markets. Essentially, the stock dividends issue is a positive signal of a financially sound and well-performing company in the investors' perceptions since it increases the shareholder value in the company (Maingi, 2022).

This theory is imperative to this study in the sense that it depicts one of the most effective, flexible, and impactful strategies of communication to the potential investors about the financial health of the company through dividend policy and payment besides the audited financial statements which on the other hand is a mandatory requirement. The impression and signal driven by the dividend announcement in the perception of investors will surely derive the desired impact per the scale of research of investors' behavior in the market. According to Korir (2020), consistent dividend-issuing firms are preferred by investors since such a trend implies enhanced financial strength and stability of the firm.

### **Bird in hand theory**

This theory was purported by Linter (1956) and presented by Gordon (1963) who directly counteracts and neutralizes the dividend irrelevance theory (Waithaka, 2021). In this regard, Waithaka (2021) established that this theory simply means that investors usually exhibit a preference for fixed-rate dividends that are more reliable than higher returns emanating from substantially risky capital gains. These behaviors are contributed by the lower cognitive capacity of shareholders about the firm's financial performance since generally capital gains tax is considerably at a lower rate than dividends (Odinya, 2018).

According to Waithaka, (2021), firms that manifest a high degree of stability and regularity in paying fixed dividends are considered by investors as fertile grounds for investment since uncertainties of future losses in the hope of earning higher returns through dividend growth are highly minimized and share value appreciated. However, this model is irrelevant where the firm's capital cost is equal to its return rate (Nekesa, Ouma, & Njuguna, 2021). Korir, (2020) established that various scholars have criticized the model based on its assumptions where the firm is wholly financed by equity with no access to debt and other sources of external financing, and the only source of returns is reflected in retained earnings where the retention rate is constant. Deficiency in reflection of impacts attributed to taxation on whether to declare dividends or retain earnings is another assumption that exposed the theory (Gamage & Peries, 2019).

Information asymmetry that compromises the market efficiency of securities rendering them unpredictable in the future compels many investors to agitate for dividends from the available funds against capital gains by re-investing (Korir, 2020). The theory contemplates a positive influence of dividends on the firm value even if the capital cost of the firm equals its Return on Equity (ROE). Investors are more motivated to invest in current dividend-paying securities than those whose returns are plowed back to for future gains due to the volatility of vital economic parameters like interest rates, and systematic and unsystematic risks (Tut, 2019)

This theory derives a significant role in the study regarding dividend policy formulation and whether to retain or issue earnings and the extent of determination of the dividend payout rate while bringing into consideration the effect such a decision may pose to the company stock values in the capital market. Additionally, Vutale and Chen (2018) argue that since the increased or fixed rate plus bonus dividend payout is agitated by shareholders who seem to be indifferent to the future returns through reinvestment, in the contemporary world where future risks and information asymmetry are more pronounced, firms are obliged to conduct dividend valuation independent of retained earnings. Thus, the theory is very crucial as far as dividend decisions are concerned since it directly advocates for the relevance of dividends.

### **Tax preference theory**

This theory was advanced by R.H. Litzenger and K. Ramaswamy who argued that investors have a preference for stocks to whose lower dividend payout is attached to earn a future higher return on reinvestment in the capital gains model that usually attracts lower tax rates (Ndichu, 2021). The higher return through reinvestment leads to an appreciation of the share value hence increasing the shareholders' wealth. The advocates of this theory maintain that to increase shareholder value, the dividend payout ratio should be substantially minimized or dividends not paid so that the firm can derive the benefits of differed tax and one-time taxation on security exchange transactions, unlike dividends that attract high tax rate every time they are issued (Gatumo & Omukaga, 2019).

The critics argue that the third theory contradicts the principle of the time value of money where a dollar today is worthy of a dollar tomorrow. This is translated to imply that the current value of dividends is higher than the future capital gains (Ndichu, 2021). Nonetheless, the proponents claim that capital gains portray a decreased tax-adjusted capital cost, and investors who are willing to grow their money without any taxation encumbrances for a particular period will finally earn higher returns through increased share value. In as much as the shareholders prefer

*Effect of Dividend Policy on Shareholders' Wealth of Commercial Banks Listed at the Nairobi* dividends, firm managers need to be cognitive of the firm's main objective and focus on achieving that goal. This situation may necessitate the management to adopt a hybrid dividend policy that guarantees shareholders low but stable dividends plus fluctuating dividends from the remains after all the positive NPV projects have been considered in the capital budgeting. This theory recommends that firms should directly focus on positive Net Present Value (NPV) that will guarantee higher returns thereby increasing the wealth of the shareholders through value creation (Muthoka, et al., 2021).

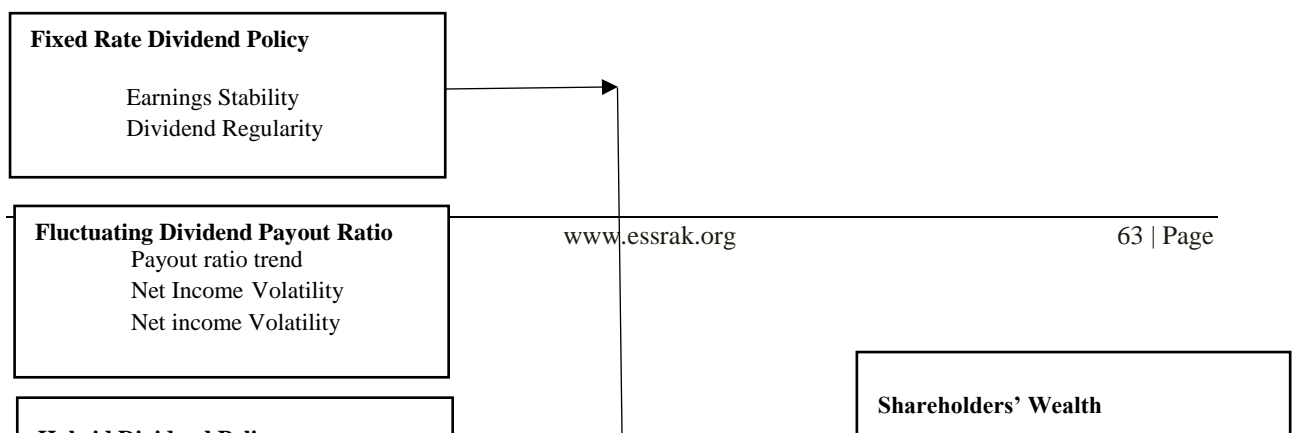
This theory is very critical in the constructive adoption of a dividend policy that will increase the wealth of the owners and reduce hazards whilst assuring the firm of stability in its 'operations. The residual dividend payment is explicitly and implicitly backed by this theory which is imperatively appropriate to this study. Tut (2019) asserted the firms ought to be cautious and maintain their' dividend policy at a fixed rate, since a change may induce existing shareholders to offload their stocks, thus dipping the share price.

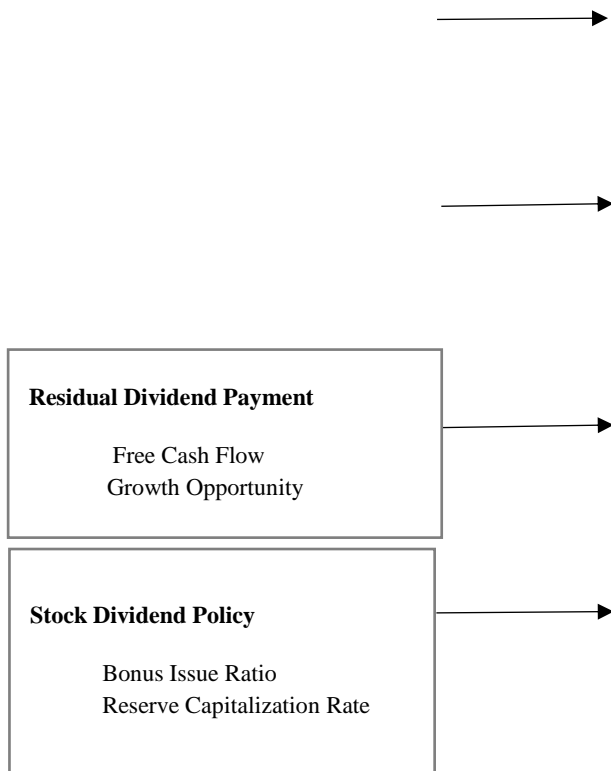
### Conceptual Framework

A conceptual framework is a body that portrays the association of the independent variables and the dependent variable (Tut, 2019). The independent variables were composed of fixed-rate dividend policy, fluctuating dividend payout ratio, hybrid dividend policy, residual dividend payment, and stock dividend policy. Shareholders' wealth represents the dependent variable. The hypothesized conceptual framework demonstrating the relationship between independent and dependent variables is represented in Figure 1.

#### Independent Variables

#### Dependent Variable





**Figure 1: Conceptual framework**

### **Research Methodology**

According to Kamanguya (2020), research design refers to a framework of methods and measures that are applied in gathering and analyzing variables derived from the research problem. The study incorporated a descriptive research design. Descriptive research design gathers data intending to find answers to questions regarding the existing condition of the study and assists the researcher in assessing variables and describing the findings (Chelimo, 2018). In that regard, the design enabled the researcher to determine the views and knowledge about the effect of dividend policy on shareholders' wealth of quoted commercial banks on NSE.

Population is the total set of occurrences, people, or items that have comparable features that can be observed (Bulla, 2021). The target population encompassed all the 11 listed commercial banks on NSE. The respondents of this study were the top management personnel of each of the commercial banks listed on NSE making up a total of 110 respondents. The commercial banks' top management personnel refer to the professionals in authority tasked with the responsibilities of making and executing key decisions that drive growth, and customer satisfaction and maintain the going concern of the banks (Messo, Tibbs, & Byaruhanga, 2020). These respondents included CEOs, chief finance officers, compliance officers, executive

*Effect of Dividend Policy on Shareholders' Wealth of Commercial Banks Listed at the Nairobi* directors, heads of corporate, directors of HR and administration officers, and Heads of digital and proximity banking.

**Table1: Population size**

S/No.	Name of the listed bank	Population size
1.	Absa Bank Kenya PLC	16
2.	Stanbic Holding PLC.	6
3.	I&M Holding LTD	5
4.	Diamond Trust Bank Kenya LTD	15
5.	HF Group LTD	8
6.	KCB Group LTD	11
7.	National Bank of Kenya LTD	7
8.	NCPBA group PLC	10
9.	Standard Chartered Bank LTD	5
10	Equity group holding	8
11.	Cooperative Bank of Kenya LTD	19
<b>Total</b>		<b>110</b>

Source: NSE (2023)

## Results and Discussion

The results are presented as follows:

### Descriptive results

Descriptive analysis was used to validate the study variables' means and standard deviations.

The findings are shown in the following tables.

#### Fixed rate dividend policy

The researcher asked respondents to rate their level of agreement or disagreement with the various features of the Fixed Rate Dividend Policy. Survey participants were asked to complete the task using a 5-point Likert scale, where 1 denoted Strongly disagree, 2 disagree, 3 neutral, 4 agree, and 5 denoted strongly agree. The results are illustrated in Table 2.

**Table 2: Descriptive results of fixed rate dividend policy**

	Mean	Std. deviation
Dividends are maintained when earnings are stable in any year.	3.47	.231

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Dividends are cut or reduced when Earnings decline in any year	2.23	.536
The dividend payment rate depends on earnings in any year	2.62	.444
Dividends have been paid regularly over the last 5 years	4.26	.703
Dividend regularity is influenced by the level of current earnings	4.11	.558
Payment of regular dividends is influenced by business risk	4.19	.679

**Key scale:** Strongly Disagree 1.00-1.80, Disagree 1.81-2.60, Neutral 2.61-3.40, Agree 3.41-4.20 and Strongly Agree 4.21-5.00.

The results in Table 2 show that the surveyed respondents concurred with the assertion that dividends are maintained in any year where earnings are stable with a mean of 3.47. The claim that dividends are lowered or eliminated when earnings fall in any given year was rejected by respondents with a mean of 2.23 and were neutral to the statement that the dividend payment rate depends on earnings in any year as revealed by a mean of 2.62. Respondents firmly approved that dividends were paid regularly over the last 5 years with a mean of 4.26 and agreed that dividend regularity is influenced by the level of current earnings with a mean of 4.11. It was agreed that the Payment of regular dividends is influenced by business risk with a mean of 4.19. The overall

### **Fluctuating dividend payout rate**

The study participants were asked to rate their agreement or disagreement on the various components of the fluctuating dividend payout rate. The respondents were required to fill this on a 5-point Likert scale, where 1 denoted strongly disagree, 2 denoted disagree, 3 denoted neutral, 4 denoted agree, and 5 denoted strongly agree. The findings are presented in Table 3.

**Table 3: Descriptive results of fluctuating dividend payout rate**

	<b>Mean</b>	<b>Std. Deviation</b>
The dividend payout ratio has been consistent for the last 10 years	4.41	.817
The payout ratio depends on the earnings of the company	4.15	.634

The payout ratio depends on the management committee's decision	4.26	.509
Net income is a determinant of dividend payment	4.10	.822
The payout ratio becomes unpredictable when net income is low	3.01	1.016
Net income volatility influences dividend growth	4.52	.663

**Key Scale:** Strongly Disagree 1.00-1.80, Disagree 1.81-2.60, Neutral 2.61-3.40, Agree 3.41-4.20 and Strongly Agree 4.21-5.00.

The results in Table 3 have shown that respondents strongly agreed that the dividend payout ratio has been consistent for the last 10 years with a mean of 4.41 and agreed that the payout ratio relies on the earnings of the company, as demonstrated by a mean of 4.15. Respondents strongly concurred that the dividend payout ratio depends on the management committee's decision with a mean of 4.26. Respondents showed an indifferent response to the assertion that the dividend payout ratio becomes unpredictable when net income is low with a mean of 3.01. Additionally, respondents agreed that net income is a determinant of dividend payment denoted by a mean of 4.10. From the results, the participants expressed a strong agreement that net income volatility influences dividend growth as shown by a mean of 4.52.

### **Hybrid dividend policy**

The study participants were requested to rate their agreement or disagreement on the various features of the Hybrid Dividend Policy. The respondents were required to do this on a 5-point Likert scale, where 1 denoted Strongly disagree, 2 disagree, 3 neutral, 4 agree, and 5 strongly agree. The outcomes as illustrated in Table 4.

**Table 4: Descriptive results of hybrid dividend policy**

	<b>Mean</b>	<b>Std. Deviation</b>
Dividend payments have been stable for the last 10 years	4.13	.882
Dividend stability is influenced by earnings stability	4.20	.887

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The stability of dividends influences investor's perception of the company's securities	4.82	.883
Capital expenditure is prioritized over dividends	4.89	.881
Capital expenditure is heavily financed by company earnings after tax	4.75	.429
Dividend payment varies with the available capital expenditure opportunities	4.98	.274

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Key Scale: Strongly Disagree 1.00-1.80, Disagree 1.81-2.60, Neutral 2.61-3.40, Agree 3.41-4.20 and Strongly Agree 4.21-5.00.

According to the results in Table 4, respondents agreed that dividend payments have been constant over the last ten years, with a mean of 4.13, and strongly agreed that capital investment is significantly financed by corporate earnings after tax, with a mean of 4.75. Respondents as well agreed to the premise that dividend stability is influenced by earnings stability with a mean of 4.20 and firmly agreed that dividend stability affects investor perceptions of the company's securities by a mean of 4.82. Respondents made a strong agreement that Capital expenditure is prioritized over dividends with a mean of 4.89. Respondents strongly concurred with the assertion that dividend payment varies with the available capital expenditure opportunities as indicated by a mean of 4.98.

### **Residual dividend payment**

The survey respondents were asked to rate their agreement or disagreement on the various components of Residual Dividend Payment. The respondents were required to do this on a 5-point Likert scale, where 1 denoted Strongly disagree, 2 disagree, 3 neutral, 4 agree, and 5 strongly agree. Table 5 presents the outcomes. The outcomes are stated in Table 5.

**Table 5: Descriptive Results of Residual Dividend Payment**

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	<b>Mean</b>	<b>Std. Deviation</b>
Dividends are only paid from the Free Cash Flow funds.	4.66	.753

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The amount of Free Cash Flow funds is influenced by the company's Earnings	4.85	.748
Free Cash Flow funds fluctuate periodically	4.52	.741
Dividends declared to depend on available growth opportunities	4.64	.756
Growth opportunities are heavily financed by net profits than any other financial source	4.51	.593
Dividends are only declared after considering and financing all the available growth opportunities	4.69	.490

Key Scale: Strongly Disagree 1.00-1.80, Disagree 1.81-2.60, Neutral 2.61-3.40, Agree 3.41-4.20 and Strongly Agree 4.21-5.00.

The results in Table 5 revealed that respondents strongly agreed that dividends are only paid from the Free Cash Flow funds and the amount of FCF funds is influenced by the Earnings of the firm as indicated by a mean of 4.66 and 4.85 correspondingly. Respondents also strongly agreed that FCF funds fluctuate periodically as shown by a mean of 4.52 and that dividends declared depend on available growth opportunities as determined by a mean of 4.64. Respondents firmly that Growth opportunities are more heavily financed by net profits than any other financial source with a mean of 4.51 and that dividends are only declared after considering and financing all the available growth opportunities with a mean of 4.69.

### **Stock dividend policy**

Respondents to the survey were asked to rank how much they agreed or disagreed with the various characteristics of the stock dividend policy. The respondents were required to do this on a 5-point Likert scale, where 1 denoted Strongly disagree, 2 disagree, 3 neutral, 4 agree, and 5 strongly agree. The findings are shown in Table 6.

**Table 6: Descriptive results of stock dividend policy**

	<b>Mean</b>	<b>Std. Deviation</b>
Bonus issue has not been awarded for the last 5 years	4.06	0.74

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Bonus issue depends on the firm's liquidity position in any given period	3.94	1.063
Bonus issue leads to an increase in market share price value	3.91	0.676
Reserve capitalization is influenced by the bank's reserve ratio requirement	3.34	0.906
Reserve capitalization has no impact on share prices	2.87	0.977
Stock dividends depends on availability of reserves for capitalization	3.53	.712

Key Scale: Strongly Disagree 1.00-1.80, Disagree 1.81-2.60, Neutral 2.61-3.40, Agree 3.41-4.20 and Strongly Agree 4.21-5.00.

The results in Table 6 illustrate that there were strong indications that bonus issue has not been awarded in the last 5 years with a mean of 4.06. There were also strong indications that bonus issue depends on the firm's liquidity position in any given period with a mean of 3.94. There were similar strong indications that bonus issue leads to an increase in market share price value with a mean of 3.91.

Most respondents were of the view that reserve capitalization is influenced by the bank's reserve ratio requirement with a mean of 3.34. There was, however, uncertainty on whether the reserve capitalization has no impact on share prices with a mean of 2.87. However, there were indications that the stock dividends on availability of reserves for capitalization with a mean of 3.53.

### **Shareholder's wealth**

Respondents to the survey were asked to rank how much they agreed or disagreed with the various characteristics of shareholder's wealth. The respondents were required to conduct this on a Likert scale of 5-point, where 1 denoted Strongly disagree, 2 disagree, 3 neutral, 4 agree, and 5 strongly agree. The outcomes are given in Table 7.

**Table 7: Descriptive results of shareholder's wealth**

	<b>Mean</b>	<b>Std. Deviation</b>
Current dividend policy influences a change in the market capitalization rate	4.16	.753

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Dividend growth leads to an increase in the market capitalization rate	4.60	.748
The dividend policies adopted over the last 10 years have had no change in the market capitalization rate	4.52	.741
The current dividend policy has boosted the firm's Economic Added Value	4.00	.756
The Economic Added Value of the bank has been growing over the last 10 years	4.51	.593
Economic Added Value depends on the bank earnings.	4.08	.741

Key Scale: Strongly Disagree 1.00-1.80, Disagree 1.81-2.60, Neutral 2.61-3.40, Agree 3.41-4.20 and Strongly Agree 4.21-5.00.

The results in Table 7 have revealed that respondents agreed that current dividend policy influences a change in the market capitalization rate as derived by a mean of 4.16 and firmly agreed that dividend growth leads to an increase in the market capitalization rate as denoted by a mean of 4.60. Additionally, respondents were very clear that the dividend policies adopted over the last 10 years have had no change in the market capitalization rate with a mean of 4.52 and agreed that the current dividend policy has boosted the firm's economic added Value as shown by a mean of 4.00. Respondents agreed strongly with the statement that the bank's economic added value has been growing over the last 10 years with a mean of 4.51 and agreed that economic added value depends on the bank earnings as revealed by a mean of 4.08.

**Correlation Analysis**

Using Pearson's product-moment correlation analysis, the relationship between dividend policy and shareholder wealth of listed commercial banks was determined. The results are shown in table 8.

**Table 8: Correlation Matrix Results**

		FRDP	FDPR	HDP	RDP	SDP	SHW
<b>FRDP</b>	Pearson Correlation	--					
<b>FDPR</b>	Pearson Correlation	.296**					
	Sig. (2-tailed)	.000					

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<b>HDP</b>	Pearson	.504**	.776**			
	Correlation					
	Sig. (2-tailed)	.000	.000			
<b>RDP</b>	Pearson	.361**	.487**	.446**		
	Correlation					
	Sig. (2-tailed)	.000	.000	.000		
<b>SDP</b>	Pearson	.174*	.494**	.144	.141	
	Correlation					
	Sig. (2-tailed)	.033	.000	.078	.085	
<b>SHW</b>	Pearson	.597**	.466**	.509**	.484*	.645*
	Correlation					--
	Sig. (2-tailed)	.000	.000	.000	.017	.000

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

\*\*Correlation is significant at the 0.01 level (2-tailed)

**FRDP= Fixed Rate Dividend Policy**

**FDPR= Fluctuating Dividend Payout Rate**

**HDP= Hybrid Dividend Policy**

**RDP= Residual Dividend Payment**

**SDP= Stock Dividend Policy**

**SHW= ShareHolder's Wealth**

Correlation results revealed that the Fixed Rate Dividend Policy (FRDP) had a significant and positive correlation with ShareHolder's Wealth (SHW) as indicated by  $r = 0.597$ . In addition, a bivariate connection between the Fluctuating Dividend Payout Rate (FDPR) and Shareholders' Wealth (SHW) was revealed to be favorably and moderately associated. This is corroborated by a 0.466 correlation coefficient and a 0.000 p-value. As evidenced by  $r$  of 0.509 and a p-value of 0.000, the bivariate correlation between Hybrid Dividend Policy (HDP) and Shareholder's Wealth (SHW) was found to be significant and favorable. Moreover, the association between Residual Dividend Payment (RDP) and ShareHolder's Wealth (SHW) was found to be significant as well as positive at  $r = 0.484$ ,  $p=0.017$  while the connection between Stock Dividend Policy (PDP) and ShareHolder's Wealth (SHW) was found to be substantial and positive at  $r = 0.645$ ,  $P\text{-value}=0.000$ .

### **Multiple Regression Results**

The study used a regression model to determine whether the independent variables had a statistically significant effect on the dependent variable. The obtained data was used to regress dividend policy constructs against shareholder wealth of commercial banks registered on the Nairobi Securities Exchange. The regression analysis findings are reported in Table 9, as displayed.

**Table 9: Model summary**

<b>Models</b>	<b>R</b>	<b>R Square</b>	<b>Adjusted R Square</b>	<b>Std. Error of the Estimate</b>
1	.692 <sup>a</sup>	.479	.430	1.89614

a. Predictors: (Constant), Fixed Rate Dividend Policy, Fluctuating Dividend Payout Rate, Hybrid Dividend Policy, Residual Dividend Payment, Stock Dividend Policy

The regression results in Table 9 revealed a moderate relationship between the research variables. In the model summary, the R<sup>2</sup> is 0.479, which indicates that predictors explain 47.9% of the variation in Shareholder's Wealth while other factors not included in the model account for the remaining 52.1% of the variation.

**Table 10: Analysis of variance**

<b>Model</b>		<b>Sum of Squares</b>	<b>Df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
1	Regression	2173.089	5	543.272	53.837	.001 <sup>b</sup>
	Residual	2361.306	74	10.091		
	Total	4534.395	79			

a. Dependent Variable: Shareholder's Wealth

b. Predictors: (Constant), Fixed Rate Dividend Policy, Fluctuating Dividend Payout Rate, Hybrid Dividend Policy, Residual Dividend Payment, Stock Dividend Policy

According to the ANOVA results in Table 10, the model's significance value was 0.001, which is less than 0.05, the critical value at the 95% significance level. As a result, the model is statistically significant in predicting the link between the study variables.

**Table 11: Regression coefficients**

<b>Model</b>	<b>Unstandardized Coefficients</b>		<b>Standardized Coefficients</b>	<b>t</b>	<b>Sig.</b>
	<b>B</b>	<b>Std. Error</b>	<b>Beta</b>		

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1 (Constant)	8.519	2.152		3.958	.000
X <sub>1</sub> -Fixed Rate Dividend Policy ( <b>FRDP</b> )	.538	.251	.175	2.143	.009
X <sub>2</sub> -Fluctuating Dividend Payout Rate ( <b>FDPR</b> )	.412	.186	.127	2.215	.000
X <sub>3</sub> -Hybrid Dividend Policy ( <b>HDP</b> )	.519	.239	.483	2.171	.043
X <sub>4</sub> -Residual Dividend Payment ( <b>RDP</b> )	.407	.127	.175	3.204	.011
X <sub>5</sub> -Stock Dividend Policy ( <b>PDP</b> )	.598	.072	.564	8.321	.000

a. Dependent Variable: Shareholder's Wealth

The derived regression coefficients of the model were:

$$Y = 8.519 + 0.538X_1 + 0.412X_2 + 0.519X_3 + 0.407X_4 + 0.598X_5$$

The regression results revealed that the independent variables had a significant value of less than 0.05, meaning that they were all significant. According to the results in Table 11, the beta coefficient for the constant was 8.519, indicating that holding all components constant at zero, the change in Shareholder's Wealth would be 8.519.

The regression results in Table 11 showed that Fixed Rate Dividend Policy and Shareholder's Wealth were positively and significantly related, the beta coefficient of Fixed Rate Dividend Policy was 0.538 with a p-value of 0.009, indicating that a unit change in Fixed Rate Dividend Policy would lead to 0.538 change in Shareholder's Wealth at P-value  $0.009 < 0.05$ . This was significant at the 0.05 level of significance, meaning that an increase in Fixed Rate Dividend Policy resulted in an improved Shareholder's Wealth. Further, the regression results in Table 11 showed that Fluctuating Dividend Payout Rate and Shareholder's Wealth were positively and significantly related. The beta coefficient of the Fluctuating Dividend Payout Rate was 0.412 with a p-value of 0.000, therefore, a unit change in the Fluctuating Dividend Payout Rate resulted in 0.412 change in Shareholder's Wealth at P-value  $0.000 < 0.05$ . This suggests that increasing the Fluctuating Dividend Payout Rate led to an enhancement in Shareholder's Wealth. Similarly, Hybrid Dividend Policy and Shareholder's Wealth were positively and significantly related, and the beta coefficient of Hybrid Dividend Policy was 0.519 with a p-value of 0.043, implying that a change of one unit in Hybrid Dividend Policy would cause a 0.519 alteration in Shareholder's Wealth with P-value  $0.043 < 0.05$  which was substantial at

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 0.05 significance level. This implied that a rise in Hybrid Dividend Policy resulted in an increase in Shareholder's Wealth. Additionally, Residual Dividend Payment and Shareholder's Wealth were positively and significantly related, and the beta coefficient of Residual Dividend Payment was 0.407 with a p-value of 0.011, implying that a change of one unit in Residual Dividend Payment would cause a 0.407 alteration in Shareholder's Wealth at P-value  $0.011 < 0.05$  which was significant at 0.05 level of significance. This implied that an increase in Residual Dividend Payment resulted in an improvement in Shareholder's Wealth. At a 95% confidence interval (p-values 0.05), the stock dividend policy (SDP) confirmed its significant influence on the contingent variable (Shareholders' Wealth) at 0.000. As a result, a one-unit increase in the stock dividend policy (SDP) was associated with a 0.598-unit increase in Shareholders' Wealth (SHW) according to the unstandardized coefficient section in Table 11.

Multiple regression model was as follows:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e$$

Where:

Y = the dependent variable (Shareholder's Wealth)

Independent variables were:

X1 = Fixed Rate Dividend Policy

X2 = Fluctuating Dividend Payout Rate

X3 = Hybrid Dividend Policy

X4 = Residual Dividend Payment

X5 = Stock Dividend Policy

$\beta_0$  = Regression constant (the value of Y when  $X_1 = X_2 = X_3 = X_4 = X_5 = 0$ )

$\beta_i$  is the coefficient for  $X_i$  (Where  $i = 1, 2, 3, 4, 5$ )

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$  = Change in Y with respect to a unit change in  $X_1, X_2, X_3, X_4, X_5$  respectively

e = standard error term

The resultant model is:

$$Y = 8.519 + 0.538X_1 + 0.412X_2 + 0.519X_3 + 0.407X_4 + 0.598X_5 + e$$

## **Hypotheses Results**

### **Hypothesis testing for fixed rate dividend policy**

The null hypothesis (Ho1) stated that the Fixed Rate Dividend Policy had no substantial effect on shareholder wealth. If the p-value fell below 0.05, the null hypothesis was rejected. Table 11 revealed a significant association between Fixed Rate Dividend Policy and Shareholder Wealth, with a p-value of  $0.009 < 0.05$ , rejecting the null hypothesis (Ho1).

### **Hypothesis testing for fluctuating dividend payout rate**

The null hypothesis (Ho2) suggested that fluctuations in dividend payout rates have no significant impact on shareholder value. If the p-value was less than 0.05, the null hypothesis was rejected. Table 11 shows a significant relationship between dividend payout rates and shareholder wealth (p-value  $0.000 < 0.05$ ), thus, rejecting the null hypothesis (Ho2).

### **Hypothesis testing for hybrid dividend policy**

The null hypothesis (Ho3) asserted that Hybrid Dividend Policy had no substantial effect on Shareholder's Wealth. If the p-value was lower than 0.05, the null hypothesis was rejected. Results in Table 11 exhibited that the p-value was  $0.043 < 0.05$ , thus, the null hypothesis (Ho3) was rejected as results proved that there was a significant association between Hybrid Dividend Policy and Shareholder's Wealth.

### **Hypothesis testing for residual dividend payment**

The null hypothesis (Ho4) indicated that Residual Dividend Payment had no significant impact on Shareholders' Wealth. If the p-value was 0.05, the null hypothesis was rejected. The results in Table 11 revealed that the p-value was  $0.011 < 0.05$ , accordingly, the null hypothesis (Ho4) was rejected as results indicated that there was a substantial relationship between Residual Dividend Payment and Shareholder's Wealth.

### **Hypothesis testing for stock dividend policy**

The null hypothesis (Ho5) stated that stock dividend policy had no substantial effect on Shareholder's Wealth. If the p-value was lower than 0.05, the null hypothesis was rejected. The outcomes in Table 11 indicate that the p-value was  $0.000 < 0.05$ , hence, the null hypothesis (Ho4) was rejected as results indicated that there was a strong correlation between stock dividend policy and Shareholder's Wealth.

**Table 12: Summary of hypotheses results**

<b>Hypothesis</b>	<b>Rule</b>	<b>p-value</b>	<b>Conclusion</b>
<b>Ho1:</b> Fixed Rate Dividend Policy has no significant effect on Shareholder's Wealth	Reject Ho If $p < 0.05$	$p = 0.009$ $p < 0.05$	Ho1 rejected
<b>Ho2:</b> Fluctuating Dividend Payout Rate has no significant effect on Shareholder's Wealth	Reject Ho If $p < 0.05$	$p = 0.000$ $p < 0.05$	Ho2 rejected
<b>Ho3:</b> Hybrid Dividend Policy has no significant effect on Shareholder's Wealth	Reject Ho If $p < 0.05$	$p = 0.043$ $p < 0.05$	Ho3 rejected
<b>Ho4:</b> Residual Dividend Payment has no significant effect on Shareholder's Wealth	Reject Ho If $p < 0.05$	$p = 0.011$ $p < 0.05$	Ho4 rejected
<b>Ho5:</b> stock dividend policy has no significant effect on Shareholder's Wealth	Reject Ho If $p < 0.05$	$p = 0.000$ $p < 0.05$	Ho5 rejected

## **Conclusions and Recommendations**

### **Conclusions**

#### **Fixed rate dividend policy and shareholder's wealth**

The study's conclusions indicate a relationship between Kenyan commercial banks listed on the NSE's fixed rate dividend policies and shareholder wealth. This implies that dividend regularity and earnings consistency have an impact on shareholder wealth. As they can foresee changes in the payout over time, shareholders tend to favour companies with a constant and predictable dividend policy. Using information from a company's financial prognosis regarding its earnings, previous dividend, and market price per share, may be done by obtaining information from the firms' published financial records.

### **Fluctuating dividend payout rate and shareholder's wealth**

The investigation concludes that among Kenyan commercial banks listed on the NSE, variable dividend distribution rates have a favourable impact on shareholders' wealth. This contradicts views that consider dividend policy to be inconsequential, as the payout ratio has a bearing on the firm market. The ratio of dividend payout is a passive residual. Commercial banks' dividend payments and profitability were directly correlated. This suggests that commercial banks that reported higher earnings (EPS) distributed larger dividends compared to those that were less lucrative. In contrast to other industries where corporations borrow to pay dividends, commercial banks listed on the Nairobi Securities Exchange relied heavily on cash on hand. From the standpoint of a firm, this is consistent with the bird-in-hand proposal. The wealth of commercial bank shareholders was largely impacted by earnings per share, dividend payments, and price-earnings. This indicates that the size of dividend payments had an impact on the market value of commercial bank shares, as seen by increased t-test values.

### **Hybrid dividend policy and shareholder's wealth**

The investigation concluded that there is a link between hybrid dividend policies and shareholder wealth among Kenyan commercial banks listed on the NSE. Hybrid dividend policies have a substantial positive link with investments and profitability for commercial banks listed on the NSE. In order to increase profitability and investments in the quoted commercial banks, their dividend policies are essential. As a result, dividend payments have a significant influence on both share prices and the valuation of owners' wealth for the NSE-quoted commercial banks.

### **Residual dividend payment and shareholder's wealth**

The analysis concludes that among Kenyan commercial banks listed on the NSE, there is a link between residual dividend payments and shareholder value. The findings also imply that investors choose a steady dividend payment above management's retention strategy and favour the bird-in-hand method of dividend payout. This illustrates that commercial banks listed on the Nairobi Securities Exchange allocate a greater portion of their profits to retention, which is used to fund the company's expansion. A significant determinant of the shareholder's wealth is the dividend. There is an information asymmetry, and the dividend payment shows that the business can generate strong profits.

### **Stock dividend policy and shareholder's wealth**

The analysis concludes that among the listed Kenyan commercial banks, there is a correlation between stock dividend policy and shareholder wealth. The companies' stock dividend policies had a considerable impact on their share values, according to the outcomes of a multiple regression OLS. The study also proved that a bonus stock issue was the most significant consideration in investors' and shareholders' investment decisions.

### **Recommendations**

Considering the findings of this study and the conclusions made, the study recommends:

#### **Fixed rate dividend policy and shareholder's wealth**

Given that directors of companies are in charge of choosing dividends, accounting professional associations ought to impose rules on the dividend policies of firms and make sure they are followed. A stable and steady dividend plan raises the prospects of an enhanced market value of the stock, which in turn boosts the shareholder wealth.

#### **Fluctuating dividend payout rate and shareholder's wealth**

When determining a firm's optimal dividend policy, it is important to take its business cycle stage, earnings stability, growth trajectory, and dividend smoothing approach into consideration.

#### **Hybrid dividend policy and shareholder's wealth**

A hybrid dividend policy that is flexible and can be embraced by the different stakeholders in the companies should be established, and management should continuously and steadily raise earnings, cash flow, and dividend payments.

#### **Residual dividend payment and shareholder's wealth**

When retained earnings are more than the funds required to finance the appropriate investment initiatives, the surplus ought to be distributed as residual dividend payments.

#### **Stock dividend policy and shareholder's wealth**

When creating a dividend policy, commercial banks should consider several factors, including their profitability, dividend history, capital ownership structure, investment prospects, shareholder expectations, shareholder tax status, and capital market accessibility as the underlying determinants of an optimal dividend policy realization.

#### **Suggested area for further studies**

An alternative area for further studies could focus on the impact of corporate governance mechanisms on dividend policy decisions and shareholder wealth. This further study would

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aim to explore the relationship between corporate governance mechanisms and dividend policy decisions, and how these decisions influence shareholder wealth.

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