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OWNERSHIP STRUCTURE AND DIVIDEND PAYOUT OF FIRMS LISTED AT THE NAIROBI SECURITIES EXCHANGE

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Abstract

This study aimed at establishing the relationship between ownership structure and dividend payout of firms listed at the Nairobi Securities Exchange. The study adopted descriptive cross-sectional design. The study adopted multiple regression analysis as an econometric strategy for estimating the association between the study variables. The target population of the study was the 59 firms listed at the Nairobi Securities Exchange and a sample of 39 firms was selected. The study utilized secondary data from the published financial statement of the companies. The study established that ownership structure (P<0.954) has no significant relationship on dividend payout of firms listed at that the NSE. The study recommended that firms listed at the NSE should consider other factors that influence dividend payout given that firms ownership structure, although would affect dividend payout of the firms listed in the NSE; firms need to consider financial performance before deciding on the dividend payout to be advanced to the shareholders.

Keywords: *Dividend payout, Dividend payout ratio, Foreign ownership, Institutional ownership, Managerial ownership and NSE, Ownership structure,*

Background of the Study

Investors have different preferences when it comes to receipt of dividends. Different researchers have carried out dividend policy studies in the last four decades and no one seems to have come up with clear results in modern day finance. Different parameters influence the firms' decision on whether to pay dividends or not. These parameters could be ownership structure financial performance or firm size among others. Dividend policy is a corporate governance tool used to reduce agency problems between investors and managers. Investors prefer dividends while managers prefer to retain the profits (Kunga, 2014).

Ownership Structure (OS) as a determinant factor for dividend payouts has long been a debate in both old and modern financial literature. Different corporates have different ownership structures. OS is a factor of corporate governance. There are those owned locally by either local individuals or local institutions, those owned by foreign investor's namely foreign institutions and foreign individuals and lastly there are those owned by the government. The effect of ownership structure on the dividend payout ratio cannot be underscored (Baba, 2011). Managerial ownership whereby companies' managers are the owners they may declare a smaller amount of dividend with the motive of retaining finance for growth of the company while companies with large percentage of foreign investors may declare high dividends since the foreign investors may be motivated to repatriate resources to their home country.

The different ownership structures come with different monitoring strategies on the performance of managers. Foreign investors are very strict about the conduct and performance of the managers compared to companies owned by the government (Harada & Nguyen, 2011). This follows that foreign owned companies may be have good performance hence there will be likelihood of paying dividends. If a company has good financial performance the higher the chances exists of paying dividends.

Locally, Kunga (2014) found that ownership structure does on influence dividend payout of firms quoted at the NSE. In contrast, Wasike, Mganda and Mutua (2017) in their study on ownership structure and dividend in reference with commercial banks quoted at the Nairobi Securities Exchange found out that there was positive relationship between ownership structure and dividend payout. Mbaabu (2010) found that ownership structure affects performance of a firm positively. Moussa and Chichti (2014) concluded that ownership structure had a positive impact on dividend payout with reference to firms Listed at the TSE.

In West Africa Odeleye (2015) concluded that dividend payout was influenced by ownership structure positively however the scholar only focused on firm ownership as the only predictor variable of ownership structure. The size of the firm also determines dividend payout. Labhane and Mahakud (2016) found out that large firms pay more dividends compared to smaller firms. Larger firms are seen to be highly profitable hence able to reward their investors with dividends. This is because they have a large asset base, wide market share, competent human capital and enjoy economies of scale. On the other hand, smaller companies are struggling to acquire market share and due their size, they are unable to attract finances from the capital markets.

However, there exists inconclusiveness on whether firm's profitability influences dividend payout. In their study, Annuar and Shamsher (2009) posited no significant relationship existed between dividend payout and profitability in the end. Samuel and Gbegi (2010) concluded that profit distribution had an inverse effect on distribution of dividends and as such, other factors such as liquidity and previous year's dividend paid influenced dividend payout. According to Amidu (2009), the firm's profitability has been for long considered, as the primary determinant of firms' potential to pay dividends. On size of the firm Rozeff (2012) posits that big companies pay higher dividends compared to smaller firms. According to Truong and Heaney (2007), the size of the firm is a major determinant of dividend payout since the probability of paying dividends increases with size.

Over the last three decades, there has been a robust economic development that has been linked to government efforts that have also affected the performance of the companies at the NSE. The dividend payout decisions have presented different issues to academicians and practitioners (Olowe, 2011). Dividends, which represent the distribution of the company's after tax earnings to shareholders, have important implications for financing and investment decision of the firm as well as the company's share price.

Ownership Structure

According to (Irshad 2015), OS is the percentage of common stock held by controlling shareholders as compared to total outstanding shares of the firm. It is also defined as the distribution of equity with regard to votes and capital as well as the identity of the equity owners (Thanatwee, 2012). Ownership structure is important to an organization. The government and other institutional shareholders are considered part of the external ownership. Ownership structure is one of the main dimensions of corporate governance and is widely viewed to be determined by other country-level corporate governance characteristics such as the development of the stock market and the nature of state intervention and regulation (La Porta, Lopez-de silences Schifer & Vishny, 1998). According to Harada and Nguyen (2011) and Khan (2006), ownership structure will be measured by the percentage of shares owned by institutions, managers and foreigners.

Dividend Payout

Dividend payout ratio is the scale the company uses to pay dividends to its shareholders. Firm's dividend policy is the financial decision, that how much dividends should be paid to the shareholders, and normally when and in what forms they should be disbursed.
One of the main key roles of a finance manager is to determine the amounts of dividends to be paid to the shareholders. Different scholars have expressed different opinions on payment of dividends. This is usually sometimes advised by the financial needs of the company. Firm's dividend policy is a financial decision on how much dividends should be paid to the shareholders, and normally when and in what forms they should be disbursed. It is usually measured by the dividend payout ratio (Balagobei, 2016).

Firms Listed at the Nairobi Securities Exchange

Currently there are 59 quoted companies in different sectors of the economy namely agricultural, commercial and services, finance and investment and industrial and allied sectors. Financial innovations have also taken way in the market to improve efficiency and smooth functioning of the exchange. Key innovations to note is the central depository and settlement corporation hereby referred to as close, which has increased efficiency.

Statement of the Problem

Dividend payout is one of the fundamental decisions a firm has to make. The relationship between ownership structure and dividend payout remains unresolved for a quite a lengthy period of time summing up to several decades (Kumar, 2003; Carvalhal-da Silver & Leal, 2004; Khan, 2006; Ramli, 2010; Al-Nawaisel, 2012; Kunga, 2014). It is for this reason that majority of scholars in the field of finance have thrown much weight into it since it involves determination of shareholders return form their investment and therefore can be a tool to relay good news about the firm to the shareholders. Dividend payout is the process of distributing corporate earnings to shareholders in form of dividends (Pandey, 2013).

Since the ground breaking seminal works of Litner (1958), Miller and Modigliani (1961) and Gordon (1962) no has ever come up with conclusive reasons of why and when does a company pay dividends. This makes this area to be of great interest as scholars and academicians delve into to it to try to solve this huge debacle. Research studies on ownership structure and the extent to which a firm adjust its dividend payout have focused on firms quoted on bourses located in first world economies such as United Kingdom, Japan and United States of America (Maniagi, 2013).

Locally, In Kenya there exists minimal literature in regards to ownership structure and dividend payout of firms. Kunga (2014) in his study revealed that ownership structure does not influence dividend payout. Wasike, Mutua and Mganda (2017), used percentage of shares held by management. This study relied on managerial, Institutional and foreign shares held by management while past studies utilized dissimilar approaches.

Research Objectives

General Objective

The general objective of the study was to determine the influence of ownership structure and dividend payout of firms listed at the Nairobi Securities Exchange.

Specific Objective

i. To determine the effect of ownership structure on dividend payout of firms listed at NSE.

Research Hypothesis

H_{01}: There is no significant relationship between ownership structure and dividend Payout

Literature Review

Agency Theory

Jensen and Mecklings (1976) advanced agency theory. This theory explains how agency problems depends on ownership structure. According to Goergen and Renneboog (2014), shareholders employ professional managers to manage their firms. Jensen and Meckling (1976) defined agency relationship as a contract under which one person known as the principal appoints another person known as the agent to act or to transact on his behalf. The principal (shareholder) expects the agent (manager) to maximize his wealth. Then there exists information asymmetry problem between managers and shareholders. In the agency, relationship, managers who are insides have information advantage. Shareholders then face dilemmas since he cannot authenticate the decisions made. Because of the superior first-hand information available to managers, they may be more interested in their personal welfare than the welfare of the firm's shareholders.

Signaling Theory

The origin of this theory was as a result of seminal work undertaken by Litner (1956) who portrayed that a proportionate change in dividend policy of a firm lead to a proportionate change in the value of the firm. Although this study was controversial according to research findings on dividend policy by Modigliani and Miller (1961), Litner (1956) posited that the reality of distributing cash dividend attracts potential investors to buy more shares which in turn enhance the market price of the firm. This is because rewarding of shareholders through cash dividend carries a signaling message of better future prospects of the firm.

Resource Dependence Theory

The origin of this philosophy is a result of scholarly works of Pfeffer and Salancik (1978) who suggest that directors bring four benefits to organizations: information in the form of advice and counsel, access to channels of information between the firm and environmental contingencies, preferential access to resources, and legitimacy. Significant empirical evidence supports these proposed benefits and suggests that the board composition is what "resource-rich" directors should focus on. Much weight on to the theory was added by Barney (1986), whose proposition is based on the premises that a firm's board, and in particular the constitution of the non-executive element of a board, can provide the firm with a vital set of resources.

Empirical Literature Review

Ownership Structure and Dividend Payout

In Egypt, Abdelwahed (2014) carried out a study on the impact of ownership on dividend payout policy. He indicated that ownership structure is a critical determinant of dividend policy. In their study, titled influence of management ownership on dividend policy of commercial banks in Kenya (Wasike, Mutua & Mganda 2017) used descriptive research design. They targeted 43 commercial banks in Kenya. The results and findings of the study showed a positive relationship between management ownership and dividend payout.

In North Africa specifically Tunisia Moussa and Chichti (2014) in their study on the relationship between ownership structure, debt policy and dividend policy in Tunisia stock exchange, argued that majority shareholders expropriate minority shareholders through extracting private benefits, which leads to less dividends.

In West Africa Odeleye (2015) carried out a study on ownership structure and dividend payouts of listed banks in Nigeria. Dynamic panel model and system generalized method of moments technique were employed for analysis. The findings of the paper indicated that ownership structure influences dividend payouts in Nigeria positively

Using regression analysis (Kunga 2014) carried out a study on ownership structure and dividend payout of firms listed at the Nairobi securities exchange. The period in consideration was between (2012-2013). The study findings showed that ownership structure does not significantly influence dividend policy.

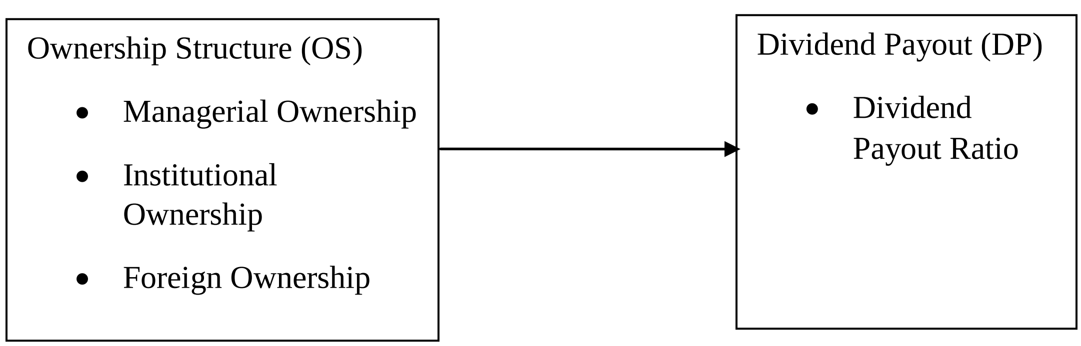
Using full and partial adjustment models Al-Gharaibeh, Zurigat and Al- Harahsheh (2013) carried out a study on the effect of ownership structure on dividend policy in Jordanian companies. The results showed that institutional ownership provides incentives for controlling shareholders to use their influence for maximizing firm value by reducing the use of funds in low return projects meaning that more cash is distributed inform of dividends.

Summary of Literature Review and Knowledge Gap

The literature review has explained various theories put forward to explain the relationship between ownership structure and dividend payout. Empirical review has been carried on studies related to the current study variables in different contexts. Largely there is strong evidence of positive as well as negative relationships between ownership structure and dividend payout both locally and globally. There exists theoretical, contextual and methodological gaps that were be filled by the study.

Conceptual Framework

Independent Variable **Dependent Variable**



Conceptual Framework Model

RESEARCH METHODOLOGY

Research Design

Research design is a blue print for fulfilling the objectives and answering the questions of study (cooper and Schindler, 2009). A study that seeks to measure variables within a short period is a cross-sectional one. This research sought to find out the relationship between ownership structure and dividend payout. This study used descriptive, cross sectional research design. Descriptive research design, on the other hand focuses on what is going on.

Target Population and Sample size

The target population for this study was all the 59 companies listed in the NSE as at 31st December, 2018 and have compiled their financial statements. The scholar adopted convenience-sampling technique to collect a good representative sample for the study. For the listed firms to be considered for in the study, they were required to have published their financial statements continuously over the period of study. A sample size of 39 firms listed at the NSE for a period of five years was selected out of the targeted population of 59 firms.

Findings of the Study

Descriptive Statistics

Descriptive statistics of the 39 firms listed at the NSE adopted in the sample were performed. This included computation of averages of the study variables.

Data Ratios

YEAR	Ownership Structure			Dividend Payout Ratio
	Institutional ownership	Managerial ownership	Foreign Ownership	
2014	40.397	11.66	25.697	8.2541
2015	39.657	12.026	26.82	-1.085
2016	39.497	11.94	26.20	7.770
2017	38.918	11.54	27.13	4.845
2018	38.36	12.54	28.42	9.312
Average	**39.36**	**11.94**	**26.85**	**5.819**

The findings of the study indicated an average of 39.36% in terms of Institutional ownership with 2014 registering the highest investment by institutions at 40.397% while 2018 registered the lowest investment by institutions at 38.36%. Investment by managers and directors in companies quoted in the NSE registered an average of 11.94% in investment, the highest average being 12.54% that was registered in 2018. Conversely, the lowest investment by managers was registered in 2014 at 11.66%. In terms of Foreign Ownership, 2014 registered the lowest foreign investment in the NSE at 25.697% while the highest investment was 28.422 % in the year 2018. The study sought to establish the dividends paid by the firms registered at the NSE. The findings of the study indicated that on average in 2015 most of the companies were not able to pay dividends and registered a negative value of -1.085 while 2018 saw shareholders receive the highest dividend at 9.32. The average dividend for the study stood at 5.819.

Ownership Structure

The findings of the study indicated that firms listed in the NSE had an average of 39.36% of common stock under institutional ownership and shareholders compared to total outstanding shares of the firm listed in the NSE. Foreign ownership followed at 24.95 and Managerial ownership had 13.25%. The average ownership structure for managerial, institutional and foreign ownership were only 25.85% of the total ownership of common stock compared to total outstanding shares of the firm listed in the NSE. This findings are similar to those of a study carried by Mwangi (2014) which posits that majority of firms at the NSE are institution owned with individual investor owning the highest stake in majority of the firms.

Ownership by managers stood at an average of 13.25%, of common stock compared to total outstanding shares. This means that majority of the directors or mangers of publicly listed firms at the NSE are risk averse and there is highly likelihood of agency problems as a result of this since managers will seem to be non-committal to their duties (Tchuigoua, 2015).

Dividend Payout Ratio

In term of the dividends paid to the investors, the findings of the study indicated that some firms did not pay dividends during the study period This could be explained by the company under performing in the period that was covered by the study.

Inferential Statistics

Relationship between ownership structure and dividend payout ratio

H1: There is no significant relationship between ownership structure and dividend payout ratio.

The study had proposed Correlation, regression, and goodness of fit tests as techniques of analysis where $DP = \beta_0 + \beta_1 OS + \varepsilon$ Analytical Model was used.

Relationship between ownership structure and dividend payout ratio: Correlation Analysis

		Y	X1	X2	X3
Dividend Payout	Pearson Correlation	1	-.179	.202	.078
	Sig. (2-tailed)		.773	.745	.901
	N	5	5	5	5
Institutional ownership	Pearson Correlation	-.179	1	-.586	-.935*
	Sig. (2-tailed)	.773		.299	.020
	N	5	5	5	5
Management Ownership	Pearson Correlation	.202	-.586	1	.725
	Sig. (2-tailed)	.745	.299		.165
	N	5	5	5	5
Foreign Ownership	Pearson Correlation	.078	-.935*	.725	1
	Sig. (2-tailed)	.901	.020	.165	
	N	5	5	5	5
*. Correlation is significant at the 0.05 level (2-tailed).					

The study also carried out analysis to establish whether each of the Independent Variables: Ownership Structure (Foreign Ownership, Management Ownership, Institutional ownership) can be used as predictors explaining the variation in Dependents Variable: that is the dividend payout ratio for the firms listed in the NSE. Pearson correlation (r) and its corresponding p-value gave the findings for each variable and if less 0.05 at 95% confidence level, then the study concludes that there is a significant relationship between the variables.

The results indicated that while all the Independent Variables: Ownership Structure (Institutional ownership (r=-.179, P>.05), Management Ownership(r=.202,P>.05), Foreign Ownership(r=.078, P>.05) had an effect on Dependents Variable: the dividend payout ratio. Therefore, the researcher concluded that there was no significance relationship between all the Ownership Structure sub variables (Foreign Ownership, Management Ownership, Institutional ownership) and dividend payout ratio for the firms listed in the NSE. In a similar study, Kunga (2014) concluded that there was no significant relationship between OS and DP of firms listed at the NSE.

Relationship between ownership structure and dividend payout ratio paid by Firms Listed at NSE

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	15.380	3	5.127	.093	.954[b]
	Residual	55.172	1	55.172		
	Total	70.552	4			
a. Dependent Variable: Dividend Payout						
b. Predictors: (Constant), Foreign Ownership, Management Ownership, Institutional ownership						

The results shows a regression output of ownership structure (Foreign Ownership, Management Ownership, Institutional ownership) as valid (F (3, 1) = .093, P>.05). This means that Ownership Structure (Foreign Ownership, Management Ownership, Institutional ownership) can be used as predictors explaining the variation in the dividend payout ratio for the firms listed in the NSE. The P>0.954 which is more than the critical value of 0.05 leads us to accept the null hypothesis and reject the alternative hypothesis that that (Foreign Ownership, Management Ownership, Institutional ownership) have a no significant relationship and dividend payout ratio that the NSE pay to the shareholders.

Relationship between ownership structure and dividend payout ratio paid by Firms Listed at NSE: Coefficient

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	365.621	832.724		.439	.737
	Institutional ownership	-6.757	14.609	-1.240	-.463	.724
	Management Ownership	5.632	14.252	.548	.395	.760
	Foreign Ownership	-5.999	12.805	-1.479	-.468	.721
a. Dependent Variable: Dividend Payout						

From the multi-regression analyzing, the findings of the study indicated that:Y=365.621+-6.757X1+.5.632X2+.-5.999+.ε.This indicates that a -6.757change in Institutional ownership, a 5.632 change in Management Ownership while -5.999 change in Foreign Ownership will have unit change in the dividend payout ratio paid by Firms Listed at NSE. All the ownership structures (Foreign Ownership, Management Ownership, Institutional ownership) would have no significance influence on dividend payout ratio paid by Firms Listed at NSE.

Where; Constant 365.621 that indicates that if Foreign Ownership, Management Ownership, Institutional ownership are all rated at zero, the dividend payout ratio paid by Firms Listed at NSE would stay at 365.621.

Conclusion

The results indicated that while all the Independent Variables: Ownership Structure (Institutional ownership (r=-.179,P>.773), Management Ownership(r=..202,P>.745), Foreign Ownership(r=..078, P> .901) had an effect on Dependents Variable: the dividend payout ratio for the firms listed in the NSE, there was no significance relation between all the Ownership Structure sub variables (Foreign Ownership, Management Ownership, Institutional ownership) and dividend payout ratio for the firms listed in the NSE. The findings of the study indicated that firms ownership structure (Foreign Ownership, Management Ownership, Institutional ownership) have no significant relationship and dividend payout ratio that the NSE pay to the shareholders. This means that changes in firm's ownership structure, although would affect dividend payout ratio for the firms listed in the NSE, that effects would not be significant and other factors determine dividend payout of firms listed at the NSE.

Recommendations

There is need for the firms to consider other factors that influence dividend payout given that firms ownership structure, although would affect dividend payout ratio for the firms listed in the NSE, that effect would not be significant. There is need for the firms to consider other factors other factors other than firm's ownership structure when deciding on the dividend payout to the shareholders.

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