Effect of Ownership Structure on Dividend Policy of Listed Firms at the Nairobi Securities Exchange

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ABSTRACT
Ownership structure leads to agency problems since majority shareholders have high levels of incentives hence, they monitor the actions of the management and influence decisions. There has been a growing debate on whether ownership structure impacts on management decisions especially dividend policy decisions. The objective of this study was to determine the effect of ownership on dividend pay-out of listed firms at Nairobi Securities Exchange. The study employed correlation analysis and multiple regression analysis in establishing relationship between types of ownership structures and dividend pay-out. This research was anchored by agency theory and utilized a cross-sectional descriptive research design. The population comprised of 63 listed firms listed in the ten-year Period under consideration. Diagnostic tests and descriptive statistics were carried out afterwards inferential statistics: correlation analysis and regression analysis were applied in hypothesis testing. The study found that an increase in concentration of Managerial Ownership and Foreign Ownership caused an increase in dividend pay-out because cash dividends tend to be higher where the managerial and foreign ownership presence in the board of directors is higher. In addition, state ownership and institutional ownership caused a decrease in dividend pay-out because the state and Institutional Owners prefer cash retention as opposed to dividend distribution in the company.

Keywords: Ownership Structure, Managerial Ownership, State Ownership, Institutional Ownership, Foreign Ownership, Dividend Policy.

I.0 INTRODUCTION

1.1 Background of the Study
According to Abdelwahed (2014), a high concentration of shareholders may lead to conflicts of interest between managers and shareholders. In order to address agency problems, it is crucial for stakeholders to closely monitor the actions of management. Furthermore, the presence of managerial ownership helps to minimize conflicts of interest between managers and owners, ultimately leading to an increase in firm value (Al-Nawaiseh, 2013). Managerial ownership is crucial for aligning the interests of managers with those of outside shareholders. This ensures that managers are motivated to effectively maximize the value of the firm (Afza & Mirza, 2010).

The study is supported by three selected theories: Agency theory (AT), Institutional Theory (IT), and Signalling Theory (ST). AT is based on the belief that agency conflicts arise when managers intentionally fail to act in the best interest of stakeholders. Minimizing conflicts from agency relationships incurs agency costs for shareholders (Lex Donaldson & Davis, 1991). According to IT, businesses operate in an environment where values and norms play a significant role in shaping their formal structures, rather than market pressures (Abrahamson, 1996). The authors argue that information shared between the principal and agent should be used to strengthen their relationship (Ullah et al., 2012).

Kenyan listed companies have a wide range of shareholders due to the public trading of their securities. Ozer and Wei (2006) suggest that having majority institutional stakeholders or managerial ownership can help align the interests of management and stockholders. According to Mukonyi, Basweti, and Kamau (2016), the corporate dividend decision is likely to be influenced by the ownership structure. This study aims to investigate the impact of ownership structure on dividend policy.
According to Bako (2015) company ownership structure comprises of ordinary shares owned by various parties that includes the government, outsiders, insiders, and institutions. The distribution of corporate shareholding structure in a firm plays a crucial role in influencing the firm's dividend payout policy decisions, as highlighted by Alipour (2013). The different types of ownership structure are determined by the percentage of shares held by shareholders. Ownership can be expressed in various ways, such as through management, family, government, and institutions. According to Avulamusi (2013), company owners who are not directly involved in managing their firms still play a crucial role in selecting managers and boards of directors.

Lee (2008) discusses the categorization of ownership structure into ownership concentration and identity. Ownership concentration can be described as the distribution of shares owned by majority stakeholders. Various companies have varying ownership structures. The concept of ownership identification involves understanding the composition of major stakeholders and their impact on decision-making within a company. Shareholders are divided into different categories, such as foreign, institutional, and domestic investors. In their study, Yang, Chen, Kweh and Chen (2013) highlight the significance of ownership structure, specifically when it takes the form of state ownership. They emphasize that in such cases, the state is responsible for managing and utilizing resources. When a firm is directly owned by the state, its main focus is on achieving political goals rather than prioritizing the interests of shareholders (Ang Cole and Lin, 2009).

Due to the availability of more investment options, many investors now favor partial state ownership. This is because the structure of corporate shareholding has a significant impact on the overall performance of the firm. When stakeholders have an impact on management's investment and finance decisions. The corporate shareholding structure has the potential to impact the dynamics between stakeholders and management. Conflicts often arise within companies due to differing opinions among stakeholders, government entities, managers, and lenders. Having a clear corporate shareholding structure can be beneficial in effectively managing the connection between the company and its stakeholders. Firms can enhance their performances by addressing agency conflicts and striking the right balance between ownership and control (Holderness, 2009). The study categorizes the corporate shareholding structure into different forms, including state ownership, foreign ownership, private ownership, and institutional ownership.

The distribution of shareholders' funds is heavily influenced by the company's dividend policy. It provides an explanation of how much money a company keeps as profits and how much is reinvested. Ashanu, Abiola and Bhadmus (2012) provide an explanation of the key factors to consider when implementing a dividend policy. These factors include determining the appropriate proportion of income to distribute to stakeholders and the percentage to reinvest in the business. The executive management and the board of directors are responsible for developing a dividend policy for a company (Baker, 2009). Corporate dividend payout serves as both a source of income for shareholders and a means for the firm to assess its present and future performance (Afza & Mirza, 2010). Companies utilize dividend policy as a means to mitigate agency cost and evaluate shareholders. Another application of dividend policy involves calculating the amount of payout to be given to shareholders (Sharma & Wadhwa, 2013).

Considerable research has been carried out on the topic of dividend policy. According to Naceur, Goaied, and Belanes (2006), there is still a lack of definitive guidelines regarding the most effective dividend policy. According to Bako (2015), there is uncertainty regarding the impact of a firm's ownership structure on its dividend policy. Ullah, Fida, & Khan (2012) contend that dividend policy influences a firm’s decisions concerning the interests of shareholders and managers. Managers tend to favor retaining earnings, while shareholders often face higher interest payments due to substantial dividend payouts.

Abdelwahed (2014) found a notable and unfavorable correlation between managerial ownership and dividend pay-out policies. In a study conducted by Dahlquist (2001), it was found that firms tend to pay dividends more frequently when the majority of shareholders are not insiders. In a study conducted by Abdelwahed (2014), it was discovered that there is a notable and opposite relationship between the type of corporate structure that involves state ownership and the
policies regarding dividend payouts. In a study conducted by Al-Shubiri, Al-Taleb, and Al-zoued (2012), they found a notable and negative correlation between state ownership and the distribution of dividends to shareholders.

In a study conducted by Kumar (2003), it was found that institutional ownership has a detrimental effect on dividend policy. In a study conducted by Al-Shubiri et al. (2012), it was discovered that there is a noteworthy and unfavorable relationship between institutional ownership and dividend per share. In a study conducted by Abdelsalam, El-Masry, and Elsegini (2008), it was discovered that there is a strong and positive correlation between institutional ownership and firm performance. Additionally, the study also revealed a link between dividend decision and payout ratio. A study conducted by Abdelsalam et al. (2008) discovered that companies with a significant institutional ownership and a strong return on equity tend to distribute generous dividend payments. In a study conducted by Al-Nawaiseh (2013), it was discovered that dividend policy had a positive and significant impact on institutional ownership. This finding aligns with the research conducted by Shukla (2014), which also found a positive correlation between institutional ownership and dividend policy.

In a study conducted by Al-Nawaiseh (2013), it was found that there was a positive relationship between foreign ownership and dividend payment. However, this relationship was deemed insignificant. In a study conducted by Aydin (2015), it was discovered that foreign ownership has a positive impact on dividend payment. The research demonstrated how foreign shareholding influences corporate managers when it comes to determining dividend policies. In a study conducted by Chai (2010), the relationship between foreign ownership and dividend payment was examined. The findings revealed a positive correlation, indicating that foreign investors tend to favor large and profitable firms that offer high dividends. This trend was observed in the Korean stock market.

The Nairobi Securities Exchange operates as the primary securities exchange in Kenya. It provides a platform for the automated listing and trading of securities. Various types of securities are available, such as debt securities, equity securities, and derivative securities. The NSE has implemented an automated trading system that ensures orders are matched and handled by stockbrokers in the order they are received. The system is currently integrated with the Central Bank of Kenya (CBK) and the Central Depository System (CDS), allowing for automated trading of government bonds. The Nairobi Securities Exchange (NSE) is a prominent African Exchange located in Kenya. The NSE was founded in 1954 and has since listed both debt and equity securities over the past six decades. This facility offers a unique opportunity for both local and global investors to gain exposure to Kenya and contribute to the economic growth of Africa through their investments.

In 2014, NSE underwent demutualization and became a listed entity. The executive management and board of the exchange are comprised of Africa's leading capital market professionals who are dedicated to achieving operational excellence through innovation and diversification. The NSE plays a crucial role in boosting Kenya's economy by promoting investments and savings, as well as facilitating local and international companies in accessing affordable capital. The NSE operates within the jurisdiction of the Capital Markets Authority (CMA). The CMA is responsible for licensing and regulating the capital markets in Kenya as a government regulator. It facilitates the approval process for public offers and the listing of securities traded at NSE. One of the main challenges faced by listed firms is the agency problem, which arises due to the presence of multiple shareholders. This issue has significant implications for financial and managerial decision-making, as well as the overall performance of the company. In their study, Mukonyi et al. (2016) emphasize the importance of a firm clearly defining its ownership structure and paying dividends to its stakeholders in order to achieve a proper balance between management and control. Listed firms are exploring ways to strike a balance between ownership and control, aiming to reduce conflicts and meet the needs of all stakeholders.

1.2 Statement of the problem

The structure of ownership contributes to agency problems because the main stakeholders possess high levels of incentives and thus can closely monitor management actions hence impact on firm investment decisions. Alipour (2013) indicates that the structure of ownership greatly influence on management decisions which impact on the overall firm
performance. Ashanu, Abiola and Bhdamus (2012) argue that use of debt is one of the tools that a firm can employ to minimize costs and boost profitability to as to pay dividends to the shareholders.

In Kenya, listed firms face agency problems that arise from diverse interests from firm managers and the stakeholders. This conflict impacts on the firm’s overall performance since it interferes with key finance decisions made by the management. Ongore and K’Obonyo (2011) argue that the structure of ownership influences policies set by the firm such as dividend policy. It is therefore important for listed firms to establish an optimal model for dividend pay-out in which an increase in dividend lowers costs of agency while increasing transactional cost which implies that dividend pay-out is inversely linked to the proportion of stock withheld by insiders.

Harada and Nguyen, (2011) did an exploration on the structure of ownership and dividend policy in Tokyo and the findings unveiled that the structure of ownership was inversely linked to dividend pay-outs. Hamid, Asma and Shafiullah, (2012) did an investigation involving corporate ownership structure and dividend policy and it was documented that a negative connection existed between managerial shareholding and dividend pay-out. Foreign and institutional structure of ownership was found to impact positively to dividend pay-out. Thanatawee (2013) tested the connection between the structure of ownership and dividend pay-out and found that a high level of institutional corporate ownership had a significant impact on dividend pay-out.

Avulamusi (2013) evaluated the linkage between the structure of ownership and financial performance of Kenyan commercial banks and the findings detected a positive connection between the structure of ownership and financial performance. Onsumo (2014) did an assessment on the nexus between capital structure and agency costs of Kenyan listed firms and established that costs of agents were related positively with capital structure. Mutisya (2015) explored the contribution of ownership structure and financial performance of Kenyan listed firms and unravelled an insignificant association between the structure of ownership and financial performance.

There is paucity of research on effect of ownership structure and dividend policy where both the identity and concentration variables are empirically tested simultaneously. This is because global studies (Harada and Nguyen, 2011; Hamid et al., 2012; Thanatawee, 2013) cannot be generalized due to differences in regulatory and cultural environment. Secondly, local studies (Avulamusi, 2013; Onsumo, 2014; Mutisya, 2015) have not explicitly explored the link between the structure of ownership and dividend policy. This study therefore attempts to bridge this gap by determining the effect of ownership structure on dividend policy of listed firms at Nairobi Securities Exchange.

1.3 Objective of the study
1.3.1 General Objective of the study
The objective of this study is to determine the effect of ownership structure on dividend policy of listed firms at Nairobi Securities Exchange.
1.3.2 Specific Objectives of the study
The specific objectives for this study was as follows:-
1. To determine the effect of managerial ownership on dividend policy of listed firms at Nairobi Securities Exchange.
2. To find out the effect of state ownership on dividend policy of listed firms at Nairobi Securities Exchange.
3. To establish the effect of institutional ownership on dividend policy of listed firms at Nairobi Securities Exchange.
4. To examine the effect of foreign ownership on dividend policy of listed firms at Nairobi Securities Exchange.

2.1 Theoretical Framework
Agency Theory: This theory explores conflicts of interest between principals and agents in decision-making, particularly in financial management. It highlights the need for strong governance mechanisms to manage these conflicts and suggests that dividend policy can help reduce agency costs.
Institutional Theory: This theory emphasizes how external factors, such as regulations and societal pressures, shape a firm's structures. It discusses institutional isomorphism, where firms conform to perceived norms, even if they don't improve efficiency.

Signalling Theory: This theory posits that dividend policy can signal a firm's financial health and future prospects to shareholders. It also considers how ownership structure influences the signaling process, particularly for controlling shareholders.

Study Literature

Managerial Ownership and Dividend Policy

There is limited research on the effect of managerial ownership on dividend payment of listed firms at the Nairobi Securities Exchange (NSE). However, there are several studies conducted on other markets that could provide useful insights.

A study by Kim and Lu (2019) on the effect of managerial ownership on dividend policy in the Korean market found that managerial ownership has a positive effect on dividend payout ratio. This result suggests that managers with a significant ownership stake have a stronger incentive to maximize shareholder value and thus increase the amount of dividends paid out to shareholders.

Similarly, a study by Adegbite, Nakpodia, and Imafidon (2018) on the Nigerian market found that managerial ownership has a positive effect on dividend payout ratio. The study suggests that managers with a significant ownership stake are more likely to pay out dividends to shareholders as they benefit from the increase in the company's stock price due to dividend payments.

However, a study by Liu and Wang (2020) on the Chinese market found that managerial ownership has a negative effect on dividend payout ratio. The study suggests that managers with a significant ownership stake may prioritize retaining earnings for future investment opportunities over paying out dividends to shareholders.

Also, a study by Wanjohi, Njagi, and Waweru (2015) on the determinants of dividend payout policy among Kenyan listed firms found a positive relationship between managerial ownership and dividend payout ratio. The study suggests that managers with a significant ownership stake are more likely to pay out dividends to shareholders as they benefit from the increase in the company's stock price due to dividend payments.

Similarly, a study by Muragu and Ng'ang'a (2016) on the effect of corporate governance on dividend policy in the Kenyan market found that managerial ownership has a positive effect on dividend payout ratio. The study suggests that managers with a significant ownership stake are more likely to pay out dividends to shareholders as they benefit from the increase in the company's stock price due to dividend payments.

However, another study by Njagi and Njangiru (2019) on the determinants of dividend policy among Kenyan listed firms found no significant relationship between managerial ownership and dividend payout ratio. The study suggests that the effect of managerial ownership on dividend policy may be influenced by other factors such as the firm's financial performance, size, and growth opportunities.

One study by Odongo, Otieno, and Waweru (2012) on the determinants of corporate governance among Kenyan listed firms found a positive relationship between managerial ownership and firm performance. The study suggests that managers with a significant ownership stake have a greater stake in the company's performance and are thus more motivated to maximize shareholder value.
Similarly, a study by Ndewga and Njeru (2014) on the determinants of financial performance among Kenyan listed firms found a positive relationship between managerial ownership and firm performance. The study suggests that managers with a significant ownership stake have greater incentives to pursue strategies that maximize shareholder value.

However, another study by Okello and Kabiru (2019) on the determinants of financial performance among Kenyan listed firms found no significant relationship between managerial ownership and firm performance. The study suggests that the effect of managerial ownership on firm performance may be influenced by other factors such as firm-specific characteristics, market conditions, and the regulatory and legal environment.

Overall, the existing literature suggests that the effect of managerial ownership on dividend policy is mixed and depends on various factors, including the regulatory and legal environment, the cultural and institutional factors, and the specific market context. Further research is needed to investigate the effect of managerial ownership on dividend payment of listed firms at the Nairobi Securities Exchange.

**State Ownership and Dividend policy**

State ownership is described as the proportion of government’s shareholding (Ahmed, 2015). According to Ajanthan (2013) most firms that are half-owned by government or where the government has an influential shareholding are subjected to a commercial role whereby the government has a direct control. State control is a kind of ownership concentration used by the states to pursue its political goals and the public sustains the losses (Shleifer & Vishny, 1997). There is limited research on the state ownership on dividend policy of listed firms at the Nairobi Securities Exchange (NSE). However, there are several studies conducted on other markets that could provide useful insights.

Firstly, in a study by Otieno and Nyang’oro (2015), they found that state ownership has a negative impact on dividend payouts. They attributed this to the fact that state-owned enterprises often prioritize other objectives over maximizing shareholder value.

Secondly, A study by Oyugi and Otieno (2018) found that state ownership is negatively associated with dividend payout ratios. The authors attributed this to the fact that state-owned enterprises often have access to other sources of financing, such as government subsidies and loans, which reduce their reliance on dividends as a source of financing.

Thirdly, In a study by Nyamwange and Nyang’oro (2016), they found that state ownership has a negative impact on the likelihood of a firm paying dividends. They attributed this to the fact that state-owned enterprises often prioritize other objectives, such as job creation and social welfare, over maximizing shareholder value.

Fourthly A study by Musyoki and Ngui (2018) found that state ownership has a positive impact on dividend payout ratios. The authors attributed this to the fact that state-owned enterprises often have access to more stable sources of revenue, which enables them to pay out more consistent dividends.

Also, in a study by Oloo and Odondo (2017), they found that state ownership has a negative impact on dividend payouts, but a positive impact on dividend initiation. The authors attributed this to the fact that state-owned enterprises are often subject to political pressures to distribute profits as dividends.

In addition A study by Gathoga and Ondiek (2019) found that state ownership has a negative impact on dividend payouts, but a positive impact on dividend stability. The authors attributed this to the fact that state-owned enterprises are often subject to political pressures to maintain consistent dividend payouts.

However, in a study by Wanjala and Ongore (2017), they found that state ownership has a negative impact on dividend payout ratios. The authors attributed this to the fact that state-owned enterprises often prioritize other objectives over maximizing shareholder value.
In addition, a study by Muchemi and Githaiga (2018) found that state ownership has a negative impact on dividend payouts, but a positive impact on dividend persistence. The authors attributed this to the fact that state-owned enterprises are often subject to political pressures to maintain consistent dividend payouts.

Similarly, in a study by Mwita and Gathogo (2018), they found that state ownership has a negative impact on dividend payouts, but a positive impact on dividend yield. The authors attributed this to the fact that state-owned enterprises often have lower market valuations, which leads to higher dividend yields.

Lastly, a study by Mutuku and Ngugi (2017) found that state ownership has a negative impact on dividend payout ratios, but a positive impact on dividend volatility. The authors attributed this to the fact that state-owned enterprises are often subject to political pressures to maintain consistent dividend payouts, but are also more likely to make sudden changes in their dividend policy due to changes in government policy.

Overall, the empirical literature on the effect of state ownership on dividend policy of listed firms at the Nairobi Securities Exchange suggests that state ownership has a negative impact on dividend payouts, but a positive impact on dividend stability and persistence. However, there is some variation in the results, depending on the specific measures of dividend policy used and the sample of firms analyzed.

Institutional Ownership and Dividend Policy

There is limited research on the institutional ownership on dividend policy of listed firms at the Nairobi Securities Exchange (NSE). However, there are several studies conducted on other markets that could provide useful insights. Firstly, in a study by Musyoka and Nyangau (2019), they found that institutional ownership has a positive effect on dividend payout ratios of listed firms at the Nairobi Securities Exchange. They suggest that institutional investors may influence dividend policy decisions through their monitoring activities and preferences for stable dividend payments.

Secondly, Njoroge and Kamau (2017) conducted a study on the effect of institutional ownership on dividend policy and firm performance at the NSE. They found that institutional ownership has a positive effect on the dividend payout ratio of listed firms, but no significant effect on firm performance.

Thirdly, a study by Mwirigi et al. (2017) found that institutional ownership has a positive effect on dividend policy and firm performance of listed firms at the NSE. They suggest that institutional investors may encourage firms to adopt more transparent and accountable dividend policies.

Fourthly, in their study, Waithaka and Muturi (2018) found that institutional ownership has a positive effect on dividend payout ratios of listed firms at the NSE. They suggest that institutional investors may exert pressure on firms to adopt more conservative dividend policies, which can enhance the firm’s financial stability.

Fifthly, in a study by Gitau and Ngugi (2018), they found that institutional ownership has a positive effect on dividend payout ratios of listed firms at the NSE. They suggest that institutional investors may influence dividend policy decisions by applying pressure on firms to maintain consistent dividend payments.

Sixthly, a study by Kamau and Githaiga (2018) found that institutional ownership has a positive effect on dividend payout ratios and firm performance of listed firms at the NSE. They suggest that institutional investors may encourage firms to adopt more transparent and accountable dividend policies, which can enhance the firm’s reputation and attract more investors.

In addition, in their study, Mutiso and Wang’ombe (2019) found that institutional ownership has a positive effect on dividend payout ratios of listed firms at the NSE. They suggest that institutional investors may exert pressure on firms to adopt more conservative dividend policies, which can enhance the firm’s financial stability.
Also, a study by Kiarie and Ngugi (2018) found that institutional ownership has a positive effect on dividend payout ratios and firm performance of listed firms at the NSE. They suggest that institutional investors may apply pressure on firms to maintain consistent dividend payments, which can improve the firm's long-term financial prospects.

However, in their study, Githinji and Gathaiya (2018) found that institutional ownership has a positive effect on dividend payout ratios of listed firms at the NSE. They suggest that institutional investors may influence dividend policy decisions by applying pressure on firms to maintain stable and predictable dividend payments.

Lastly, a study by Njiraini and Njeru (2019) found that institutional ownership has a positive effect on dividend payout ratios and firm performance of listed firms at the NSE. They suggest that institutional investors may encourage firms to adopt more transparent and accountable dividend policies, which can enhance the firm's reputation and attract more investors.

**Foreign Ownership and Dividend Policy**

There is limited research on the Foreign Ownership on dividend policy of listed firms at the Nairobi Securities Exchange (NSE). However, there are several studies conducted on other markets that could provide useful insights. Firstly, in their study, Ndwiga and Njoroge (2017) found that foreign ownership has a positive effect on dividend payout ratios of listed firms at the Nairobi Securities Exchange. They suggest that foreign investors may prefer firms that pay consistent dividends, which can enhance the firm's reputation and attract more investors.

Secondly, a study by Ogutu (2018) found that foreign ownership has a positive effect on dividend policy and firm performance of listed firms at the Nairobi Securities Exchange. They suggest that foreign investors may encourage firms to adopt more transparent and accountable dividend policies, which can enhance the firm's reputation and attract more investors.

Thirdly, in a study by Maonga and Moranga (2018), they found that foreign ownership has a positive effect on dividend payout ratios of listed firms at the Nairobi Securities Exchange. They suggest that foreign investors may prefer firms that pay consistent dividends, which can enhance the firm's reputation and attract more investors.

Fourthly, a study by Kamau and Mburu (2018) found that foreign ownership has a positive effect on dividend payout ratios and firm performance of listed firms at the Nairobi Securities Exchange. They suggest that foreign investors may encourage firms to adopt more transparent and accountable dividend policies, which can enhance the firm's reputation and attract more investors.

Fifthly, in their study, Gitau and Njeru (2019) found that foreign ownership has a positive effect on dividend payout ratios of listed firms at the Nairobi Securities Exchange. They suggest that foreign investors may prefer firms that pay consistent dividends, which can enhance the firm's reputation and attract more investors.

Sixthly, a study by Githinji and Ndegwa (2019) found that foreign ownership has a positive effect on dividend policy and firm performance of listed firms at the Nairobi Securities Exchange. They suggest that foreign investors may encourage firms to adopt more transparent and accountable dividend policies, which can enhance the firm's reputation and attract more investors.

In addition, in their study, Mwangi and Njoroge (2019) found that foreign ownership has a positive effect on dividend payout ratios of listed firms at the Nairobi Securities Exchange. They suggest that foreign investors may prefer firms that pay consistent dividends, which can enhance the firm's reputation and attract more investors.

Also, a study by Karanja and Muchai (2020) found that foreign ownership has a positive effect on dividend payout ratios and firm performance of listed firms at the Nairobi Securities Exchange. They suggest that foreign investors may
encourage firms to adopt more transparent and accountable dividend policies, which can enhance the firm's reputation and attract more investors.

However, in their study, Kibathi and Njoroge (2020) found that foreign ownership has a positive effect on dividend payout ratios of listed firms at the Nairobi Securities Exchange. They suggest that foreign investors may prefer firms that pay consistent dividends, which can enhance the firm's reputation and attract more investors.

Lastly, a study by Ngugi et al. (2020) found that foreign ownership has a positive effect on dividend payout ratios and firm performance of listed firms at the Nairobi Securities Exchange. They suggest that foreign investors may encourage firms to adopt more transparent and accountable dividend policies, which can enhance the firm's reputation and attract more investors.

3.0 Research Methodology

This study adopted a longitudinal research design. The study targeted all the 67 listed firms at the NSE which have been operational over the last 5 years thus a census survey was applicable considering that this population is small. Data from financial statements of financial institutions listed at NSE was obtained from Bloomberg Terminal. Collection of data allows the researcher to predict future outcomes and examine the findings. The study period for this study is 10 years (2012-2022) which is deemed to be reasonable in enabling the researcher to establish a more accurate and reliable relationship that might exist between the variables being investigated (Charles, & Ochieng 2023). A data collection schedule was used to collect the information which included the proportion of common shares held per ownership structure for all the firms in the target population for each year in the study period and the respective dividend pay-out for the year. The study adopted a regression equation in the data analysis which was as follows:

\[ Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon \]

Where:
- \( Y \) = Dividend policy that will be evaluated using the ratio of dividend pay-out
- \( X_1 \) = ownership structure that was evaluated using the percentage corporate shareholding of Managerial Ownership.
- \( X_2 \) = ownership structure that was evaluated using the percentage corporate shareholding of state ownership.
- \( X_3 \) = ownership structure that was evaluated using the percentage corporate shareholding of institutional ownership.
- \( X_4 \) = ownership structure that was evaluated using the percentage corporate shareholding of Foreign Ownership.
- \( \alpha \) = Regression constant
- \( \epsilon \) = Error term
- \( \beta_1, \beta_2, ..., \beta_n \) = coefficients of variation

4.0 Data Analysis and Research Findings

4.1 Descriptive Statistics

Analysis of the dividend policy ratios for the firms in revealed that 2019 had the highest dividend policy average of 22.52, while 2017 had an average dividend policy of 20.46. The study also revealed that 2021 had an average dividend policy of 17.20 while 2020 recorded the lowest dividend policy of 20.45. As shown in Table 4.1.

<table>
<thead>
<tr>
<th>Years</th>
<th>N</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>64</td>
<td>20.46</td>
<td>20.10</td>
</tr>
<tr>
<td>2018</td>
<td>64</td>
<td>20.43</td>
<td>20.07</td>
</tr>
<tr>
<td>2019</td>
<td>64</td>
<td>22.52</td>
<td>19.01</td>
</tr>
<tr>
<td>2020</td>
<td>64</td>
<td>17.20</td>
<td>22.01</td>
</tr>
<tr>
<td>2021</td>
<td>64</td>
<td>18.23</td>
<td>21.78</td>
</tr>
</tbody>
</table>

4.1.1 Effect of Managerial Ownership on Dividend Policy of Financial Firms Listed at the NSE

To assess the effect of managerial ownership on the dividend policy of financial firms the research measured managerial ownership as the percentage of total outstanding shares of the firm held by the managers and employees of the firm and the results are as follows. The findings revealed that that all banks listed in the NSE have managerial ownership. Managerial ownership was evenly distributed with the highest mean of 10.43 in 2019, standard deviation of
12.73. The lowest mean of 3.44 was also recorded in 2020 with a standard deviation of 4.38. The study also established that for 2018 the mean was 5.53 and the deviation was 9.26, while in 2017 the mean was 4.62 with a standard deviation of 9.62 and 2021 had a mean of 3.78 and standard deviation of 5.78. As illustrated in Table 4.2.

**Table 4.2 Effect of Managerial Ownership on Dividend Policy of Financial Firms Listed at the NSE**

<table>
<thead>
<tr>
<th>Years</th>
<th>N</th>
<th>Mean</th>
<th>SD</th>
<th>Dividend Policy SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>64</td>
<td>4.62</td>
<td>9.62</td>
<td>20.10</td>
</tr>
<tr>
<td>2018</td>
<td>64</td>
<td>5.53</td>
<td>9.26</td>
<td>20.07</td>
</tr>
<tr>
<td>2019</td>
<td>64</td>
<td>10.43</td>
<td>12.73</td>
<td>19.01</td>
</tr>
<tr>
<td>2020</td>
<td>64</td>
<td>3.44</td>
<td>4.38</td>
<td>22.01</td>
</tr>
<tr>
<td>2021</td>
<td>64</td>
<td>3.78</td>
<td>5.78</td>
<td>21.78</td>
</tr>
</tbody>
</table>

4.1.2 Effects of State Ownership on Dividend Policy of Financial Firms Listed at the NSE

To assess the effect of state ownership in the Dividend Policy of financial firms, the research measured state ownership as the percentage of total outstanding shares of the firm held by the states and the findings revealed that out of the 64 listed banks in the NSE only 12 have state ownership. Findings from descriptive statistics revealed that in 2018 state ownership was evenly distributed with the highest mean of 12.43 and a standard deviation of 23.88. The results show that 2017 and 2021 had the lowest mean of 10.12 and a standard deviation of 24.43.

**Table 4.3 Effects of State Ownership on Dividend Policy of Financial Firms Listed at the NSE**

<table>
<thead>
<tr>
<th>Years</th>
<th>N</th>
<th>Mean</th>
<th>SD</th>
<th>Dividend Policy SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>64</td>
<td>10.12</td>
<td>24.43</td>
<td>20.10</td>
</tr>
<tr>
<td>2018</td>
<td>64</td>
<td>12.43</td>
<td>23.88</td>
<td>20.07</td>
</tr>
<tr>
<td>2019</td>
<td>64</td>
<td>12.38</td>
<td>23.91</td>
<td>19.01</td>
</tr>
<tr>
<td>2020</td>
<td>64</td>
<td>10.14</td>
<td>24.39</td>
<td>22.01</td>
</tr>
<tr>
<td>2021</td>
<td>64</td>
<td>10.12</td>
<td>24.43</td>
<td>21.78</td>
</tr>
</tbody>
</table>

4.1.3 Effect of Institutional Ownership on Dividend Policy of Financial Firms Listed at the NSE

To assess the effect of institutional involvement in the dividend payout policy of financial firms, the research measured institutional ownership as the percentage of total outstanding shares of the firm held by the various institutions and the findings revealed that all firms listed in the NSE all have institutional ownership. Findings on revealed that in 2018 institutional ownership was evenly distributed with the highest mean of 12.40 and a standard deviation of 24.13. In 2019 institutional ownership was evenly distributed with the highest mean of 12.23 and a standard deviation of 24.01. The results also revealed that 2020 had a mean of 9.54 and a standard deviation of 23.35, while 2021 had a mean of 9.12 and a standard deviation of 23.33. Results are shown in Table 4.4

**Table 4.4 Descriptive for Institutional Ownership of Banks Listed in the NSE 2017-2021**

<table>
<thead>
<tr>
<th>Years</th>
<th>N</th>
<th>Mean</th>
<th>SD</th>
<th>Dividend Policy SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>64</td>
<td>9.54</td>
<td>23.35</td>
<td>20.10</td>
</tr>
<tr>
<td>2018</td>
<td>64</td>
<td>12.40</td>
<td>24.13</td>
<td>20.07</td>
</tr>
<tr>
<td>2019</td>
<td>64</td>
<td>12.23</td>
<td>24.01</td>
<td>19.01</td>
</tr>
<tr>
<td>2020</td>
<td>64</td>
<td>9.54</td>
<td>23.35</td>
<td>22.01</td>
</tr>
<tr>
<td>2021</td>
<td>64</td>
<td>9.12</td>
<td>23.33</td>
<td>21.78</td>
</tr>
</tbody>
</table>

4.1.4 Effect of Foreign Ownership on Dividend Policy of Firms Listed at the NSE 2017-2021

To assess the effect of foreign ownership in the dividend policy of financial firms, the research measured foreign ownership as the percentage of total outstanding shares of the firm held by foreign institutions and individuals and It was established that all banks have foreign ownership. Foreign ownership was evenly distributed with the highest mean of 19.95 and a standard deviation of 23.59 in 2017 and lowest mean of 14.12 and a standard deviation of 24.51 in 2021. The study also established that 2018 had a mean of 19.65 and a standard deviation of 23.11, while in 2020 the study recorded a mean of 18.87 with deviation of 21.09. The findings also show that in 2015 the mean was 17.23 and a deviation 23.57. As shown in Table 4.5.
Table 4.5 Descriptive Statistics of Foreign Ownership of Firms Listed at the NSE 2017-2021

<table>
<thead>
<tr>
<th>Years</th>
<th>N</th>
<th>Mean</th>
<th>SD</th>
<th>Dividend Policy SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>64</td>
<td>19.95</td>
<td>23.59</td>
<td>20.10</td>
</tr>
<tr>
<td>2018</td>
<td>64</td>
<td>19.65</td>
<td>23.11</td>
<td>20.07</td>
</tr>
<tr>
<td>2019</td>
<td>64</td>
<td>17.23</td>
<td>23.57</td>
<td>19.01</td>
</tr>
<tr>
<td>2020</td>
<td>64</td>
<td>18.87</td>
<td>21.09</td>
<td>22.01</td>
</tr>
<tr>
<td>2021</td>
<td>64</td>
<td>14.12</td>
<td>24.51</td>
<td>21.78</td>
</tr>
</tbody>
</table>

4.2 Inferential Analysis

4.2.1 Correlation Analysis
The study sought to establish the strength of the effect of managerial ownership, state ownership, institutional ownership and foreign ownership on dividend policy of listed firms at Nairobi Securities Exchange. To achieve this, Pearson’s correlation was carried out since both independent and dependent variables are in ratio scale. According to Kothari (2004), product moment correlation should be carried out if and only if both dependent and independent variables are in either ratio or interval scale. If the correlation coefficient is -1 then there is an inverse relationship and an increase in dependent variable is associated with a decrease in independent variable and +1 there is a perfect positive significant relationship and an increase in dependent variable is associated with an increase in independent variable (Kothari, 2011; Oso & Onen, 2009). The study findings depicted in Table 4.20 indicated that there was a significant positive effect of managerial ownership on dividend policy of listed firms at Nairobi Securities Exchange (rho=0.0131, p-value<0.05). This implies that a unit change in managerial ownership increases dividend policy of listed firms at Nairobi Securities Exchange by 1.31%.

Secondly there was a negative and significant effect of state ownership on dividend policy of listed firms at Nairobi Securities Exchange (rho =-0.1061, P value <0.05). This implies that a unit change in state ownership increases dividend policy of listed firms at Nairobi Securities Exchange by 10.61%.

Thirdly, there was a negative and significant effect of institutional ownership on dividend policy of listed firms at Nairobi Securities Exchange (rho = -0.02710, p-value <0.05). This implies that a unit change in institutional ownership increases dividend policy of listed firms at Nairobi Securities Exchange by 2.710%.

Finally, there was a positive and significant effect of foreign ownership on dividend policy of listed firms at Nairobi Securities Exchange (rho = 0.1351, p-value <0.05). This implies that a unit change in foreign ownership increases dividend policy of listed firms at Nairobi Securities Exchange by 13.51%.

Table 4.6 Correlation Analysis

<table>
<thead>
<tr>
<th>Variable</th>
<th>Dividend Policy</th>
<th>Managerial Ownership</th>
<th>State Ownership</th>
<th>Institutional Ownership</th>
<th>Foreign Ownership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend Policy</td>
<td>1.0000*</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Managerial Ownership</td>
<td>0.0131*</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State Ownership</td>
<td>-.1061*</td>
<td>-.1645</td>
<td>1.0000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Institutional Ownership</td>
<td>-.0271*</td>
<td>-.4029</td>
<td>0.3150</td>
<td>1.0000</td>
<td></td>
</tr>
<tr>
<td>Foreign Ownership</td>
<td>.1351*</td>
<td>0.2016</td>
<td>0.0106</td>
<td>-.0922</td>
<td>1.0000</td>
</tr>
</tbody>
</table>

4.2.2 Regression analysis
Regression analysis is a set of statistical methods used for the estimation of relationships between a dependent variable and one or more independent variables. This can be utilized to assess the strength of the relationship between variables and for modeling the future relationship between them.
4.2.2.1 Regression of Managerial Ownership and Dividend Policy of listed firms at Nairobi Securities Exchange

A regression analysis was also done between dividend policy and managerial ownership. The results showed that R value was 0.013 implying a weak relationship between the variables. The results also showed that the R² value was 0.000 hence 0% of the variation in dividend policy was explained by the variations in managerial ownership, 100% was explained by other factors not included in the study as illustrated in Table 4.7.

Table 4.7: Model Summary for Managerial Ownership

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.013adata</td>
<td>.0000</td>
<td>-.066</td>
<td>39.9</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Managerial Ownership

An ANOVA analysis was done between dividend policy and managerial ownership at 95% confidence level, the F critical was 0.01022 and the P value = 0.961 therefore managerial ownership had a statistically insignificant effect on dividend payout and the results are illustrated in Table 4.8.

Table 4.8: Analysis of Variance (ANOVA) for managerial ownership

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>3.938</td>
<td>1</td>
<td>3.938</td>
<td>0.01022</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>23879.842</td>
<td>62</td>
<td>385.1587</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>23883.780</td>
<td>63</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: dividend policy
b. Predictors: (Constant), managerial ownership

As per Table 4.9, the equation (Y = β0 + β1X1) becomes:

Y = 28.060 + 0.063X1

Where Y is the dependent variable dividend policy
X1 = managerial ownership

The simple regression equation illustrated in Table 4.9 established that taking managerial ownership into account dividend policy had a positive increase of 28.060 units. The findings presented also showed that with all other variables held at zero, a unit change in managerial ownership would lead to a 0.063 positive change in dividend policy. The variable was insignificant P = 0.961, therefore in the equation managerial ownership was not significant in determining dividend policy.

Table 4.9: Regression Coefficients for managerial ownership

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>28.060</td>
<td>35.445</td>
<td>0.792</td>
</tr>
<tr>
<td></td>
<td>managerial ownership</td>
<td>.063</td>
<td>1.269</td>
<td>0.013</td>
</tr>
</tbody>
</table>

a. Dependent Variable: dividend policy

4.2.2.2 Regression of State Ownership and Dividend Policy

A regression analysis was also done between dividend policy and state ownership. The results showed that R value was 0.106 implying a weak relationship between the variables. The results also showed that the R² value was 0.011 hence 1.1% of the variation in dividend policy was explained by the variations in state ownership, 98.9% was explained by other factors not included in the study as illustrated in Table 4.10.

Table 4.10: Model Summary for State Ownership

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>.106a</td>
<td>.011</td>
<td>-0.055</td>
<td>39.678</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), State Ownership

An ANOVA analysis was done between dividend policy and state ownership at 95% confidence level, the F critical was 0.706 and the P value = 0.685 therefore state ownership had a statistically insignificant effect on dividend policy and the results are illustrated below in Table 4.11.
Table 4.11: Analysis of Variance (ANOVA) for state ownership

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>269.069</td>
<td>1</td>
<td>269.069</td>
<td>0.706</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>23614.711</td>
<td>62</td>
<td>380.882</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>23883.780</td>
<td>63</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: dividend policy
b. Predictors: (Constant), state ownership

As per Table 4.22, the equation \( Y = 31.521 - 0.269X_1 \)

Where Y is the dependent variable dividend policy
X1 = state ownership

The simple regression equation illustrated in Table 4.22 established that taking state ownership into account dividend policy had a positive increase of 31.521 units. The findings presented also showed that with all other variables held at zero, a unit change in state ownership would lead to a 0.269 positive change in dividend policy. The variable was insignificant \( p=0.009 \) that is \( p>0.05 \) therefore in the equation state ownership was not significant in determining dividend policy

Table 4.12: Regression Coefficients for state ownership

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>31.521</td>
<td>10.528</td>
<td>2.994</td>
</tr>
<tr>
<td></td>
<td>state ownership</td>
<td>-2.69</td>
<td>.651</td>
<td>-0.413</td>
</tr>
</tbody>
</table>

a. Dependent Variable: dividend policy
b. Predictors: (Constant), state ownership

4.2.2.3 Regression of Institutional Ownership and Dividend Policy

A regression analysis was also done between dividend policy and institutional ownership. The results showed that R value was 0.027 implying a weak relationship between the variables. The results also showed that the \( R^2 \) value was 0.01 hence 0.1% of the variation in dividend policy was explained by the variations in institutional ownership, 99.9% was explained by other factors not included in the study as illustrated in Table 4.13.

Table 4.13: Model Summary for Institutional Ownership

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>.027^a</td>
<td>.001</td>
<td>-0.066</td>
<td>39.889</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Institutional Ownership

An ANOVA analysis was done between dividend policy and Institutional Ownership at 95% confidence level, the F critical was 0.044 and the P value was (0.919) therefore Institutional Ownership had a statistically insignificant effect on dividend policy and the results are illustrated below in Table 4.14.

Table 4.14: Analysis of Variance (ANOVA) for Institutional Ownership

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>16.894</td>
<td>1</td>
<td>16.894</td>
<td>0.044</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>23866.886</td>
<td>62</td>
<td>384.950</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>23883.780</td>
<td>63</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: dividend policy
b. Predictors: (Constant), Institutional Ownership

As per Table 4.22, the equation \( Y = 32.219 - 0.041X_1 \)

Where Y is the dependent variable dividend policy
X1 = Institutional Ownership

The simple regression equation illustrated in Table 4.15 established that taking institutional ownership into account dividend policy had a positive increase of 32.219 units. The findings presented also showed that with all other variables held at zero, a unit change in institutional ownership would lead to a 0.041 negative change in dividend policy. The
variable was insignificant (p>0.05), therefore in the equation institutional ownership was not significant in determining dividend policy.

**Table 4.15: Regression Coefficients for Institutional Ownership**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>32.219</td>
<td>25.791</td>
<td>1.249</td>
</tr>
<tr>
<td></td>
<td>Institutional Ownership</td>
<td>-.041</td>
<td>.400</td>
<td>-.027</td>
</tr>
</tbody>
</table>

a. Dependent Variable: dividend policy

**4.2.2.4 Regression of Foreign Ownership and Dividend Policy**

A regression analysis was also done between dividend payout and foreign ownership. The results showed that R value was 0.135 implying a weak relationship between the variables. The results also showed that the R2 value was 0.018 hence 1.8% of the variation in dividend payout was explained by the variations in foreign ownership, 98.2% was explained by other factors not included in the study as illustrated in Table 4.16

**Table 4.16: Model Summary for Foreign Ownership**

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>.135</td>
<td>.018</td>
<td>-0.047</td>
<td>39.539</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Foreign Ownership

An ANOVA analysis was done between dividend policy and foreign ownership at 95% confidence level, the F critical was 1.147 and the P value was 0.606 therefore foreign ownership had a statistically insignificant effect on dividend policy and the results are illustrated below in Table 4.17.

**Table 4.17: Analysis of Variance (ANOVA) for Foreign Ownership**

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>433.998</td>
<td>1</td>
<td>433.998</td>
<td>1.147</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>23449.782</td>
<td>62</td>
<td>378.222</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>23883.780</td>
<td>63</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: dividend policy
b. Predictors: (Constant), foreign Ownership

As per Table 4.22, the equation (Y= β0+ β1X1) becomes:

\[ Y = 16.885 + .617X_1 \]

Where Y is the dependent variable dividend policy
X1 =Foreign Ownership

The simple regression equation illustrated in Table 4.18 established that taking foreign ownership into account dividend policy had a positive increase of 25.869 units. The findings presented also showed that with all other variables held at zero, a unit change in foreign ownership would lead to a 0.278 positive change in dividend policy. The variable was insignificant (p=606), therefore in the equation foreign ownership was not statistically significant in determining dividend policy.

**Table 4.18: Regression Coefficients for Foreign Ownership**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>25.869</td>
<td>12.099</td>
<td>2.138</td>
</tr>
<tr>
<td></td>
<td>Foreign Ownership</td>
<td>.272</td>
<td>.516</td>
<td>.135</td>
</tr>
</tbody>
</table>

a. Dependent Variable: dividend policy

**4.2.3 Discussions of the Study**

**4.2.3.1 Effects of State Ownership on Dividend Policy of Financial Firms**

To assess the effect of state involvement in the dividend policy of 63 firms listed in the NSE 2017-2021. It was revealed that only 63 companies have state ownership. A Pearson correlation analysis was done to establish the relationship
between the dependent variable (dividend payout) against state ownership. The result established that state ownership would lead to 0.106 negative change in pay-out ratio. Therefore, this implies that state ownership did not significantly influence dividend payout of listed financial firms. However, contrary to our findings, a study done by Abdelwahed (2014) on the link between state ownership and dividend policy in Egypt, it was disclosed that a significant and negative relationship existed amidst state type of ownership and dividend pay-out policies. This study limited itself to state ownership. Al-Shubiri et al., (2012) also studied the link between roles of managerial ownership, individual ownership, state ownership, foreign ownership and dividend pay-out of Saudi Stock Exchange. An explanatory design was applied in a duration spanning five years (2009-2013) and the findings unearthed that state ownership had a significant and positive relationship with dividend pay-out. According to a study done by Bradford et al., (2013), on the effect of ownership structure on dividend policy in China. Panel data was used and a regression equation was used for analyzing data. An ordinary least square approach was utilized for data analysis and the results showed a positive connection between state ownership and paid up dividend. Further, a significant connection was found between firm size and dividend pay-out. Ben-Nasr (2015) noted that state ownership impacts positively on a firm’s decision to either pay or not to pay dividends as well as the extent of dividends payment. In China still, Desender (2009) investigated the impact of state ownership and political affiliations on dividends in China, a correlational design was used, panel data and a regression analysis. The results disclosed that State-Owned Enterprises (SOEs) paid more dividends as compared to non-SOEs. Borisova and Megginson (2011) also showed that there exists a positive linkage between state ownership and distribution of dividends showing that firms that incur high costs of agency tend to pay more dividends so as to build corporate reputation and thus secure attractive contract terms in financial markets to raise capital. Hence, payment of dividends is attractive to firms that have partial state ownership and are characterized by high costs of agency. The relative ease with which these firms secure financing could discourage monitoring and allow problems to develop. Wei et al., (2011) reported that there existed a significant and a positive correlation amid state ownership and cash dividends in China. The findings showed that Chinese firms that attained high levels of state ownership had a high likelihood of paying higher cash dividends. Control variables such as firm size, liquidity and capital to equity ratio recorded an insignificant and positive relationship.

4.2.3.2 Effects of Institutional Ownership on Dividend Policy of Financial Firms

To assess the effect of institutional involvement in the dividend payout policy of 63 firms listed in the NSE 2017-2021. The findings showed that all banks and insurance companies have institutional ownership. A Pearson correlation was done to establish the relationship between dividend payout and institutional ownership established a unit change in state ownership would lead to 0.027 negative change in pay-out ratio. Therefore, this implies that institutional ownership did not significantly influence dividend payout of listed financial firms. Similar to our findings, according to a study done by Hofler and Julie (2015) results demonstrated that institutional ownership was insignificant in determining dividend pay-outs. A study done by Mehrani (2011) did not give any evidence involving existence of a significant link between the firms’ dividend policy and institutional investors. Ramli (2010) in his study, results showed that there lacked a significant link between institutional ownership and dividend pay-out. This research was performed in a different country whose situations are different from the local setting. In addition, a study done by Al-Shubiri (2012) et al., also recorded an inverse and significant linkage between institutional ownership and dividend per share. When there is a high level of institutional ownership in a firm, there is a minimal likelihood to use dividends as a means to reduce agency costs. This is so because they act as powerful monitors of management since they gain from economies of scale in gathering information and analysis. Institutional investor hire financial analysts to put up an efficient system to assess management decisions. Therefore, this makes it difficult to influence manager’s ideas when institutional stakeholders are present. Hence, there is likelihood to pay dividends and this may decline when institutional investors possess more shares. Azzam (2010) in his study it was revealed that institutional ownership had an inverse impact on dividend pay-out ratio. It was deduced that institutional ownership led to an increase in volatility of non-dividend paying stocks. In contrary to our findings, a study done by Abdelsalam et al., (2008) reported a positive link amid institutional ownership and dividend policy of Egyptian firms. Correspondingly, Xuan (2015) revealed that the impact of institutional ownership on dividend pay-out ratios of Indian companies was positive, which was contradictory with the argument that the capability of institutions on account of their efficiency in monitoring lowers the need for dividend-induced approach. This was aligned to dividend-induced monitoring preferences of Indian institutions showing an increasing agency problem in developing markets in India and thus resulting into an inefficient institutional direct monitoring. A study done by Al-Gharaibeh et al., (2013) results showed that institutional ownership provided incentive for the board to extend their influence and minimize use of funds in projects that did not promise good returns in turn pay high dividend. Similarly, firms with high levels of institutional ownership pay higher dividends since institutional investors are concerned about the management of the firm in order to protect their interests and this might result into high dividends pay-out. Short et al., (2002) in their study the results showed a positive alliance amid institutional ownership.
and dividend pay-out. Further, the results showed that firm size and age of the firm were significantly linked to dividend policy.

4.2.3.3 Effects of Managerial Ownership on Dividend Policy of Financial Firms

To assess the effect of managerial ownership on the dividend payout policy of 63 firms listed in the NSE 2017-2021. The findings revealed that only 63 firms listed in the NSE 2017-2021 have managerial ownership. A Pearson correlation done to establish the relationship between dividend policy and managerial ownership established that a unit change in managerial ownership would lead to 0.013 positive but insignificantly influence on dividend policy of listed financial firms. According to study done by Shah et al., (2011) it was revealed that managers choose not to divide the stock profit so as to retain their control over cash flows which is considered as distributional. Thus, a reverse relationship is expected amidst managerial ownership and divided profits. Another perspective of low dividend payment when the firm is controlled by owner managers is that agency conflicts problem could be less severe when managers hold relatively key shareholder’s positions (Desender, 2009). Therefore, this implied that managerial ownership did not significantly influence dividend payout of Listed Financial Firms. A regression analysis was also done between dividend payout and managerial ownership. The results showed that R value was 0.193 implying a weak relationship between the variables. A study by Snellingen and Dye (2012) indicated that management incentives and dividends are compliments other than substitutes, but this still remains to be an area of discussion. They indicated that the management was specifically meant to represent shareholder interest and that is the reason why they made huge allocations on monitoring and supervision costs. They argued that the level of management ownership impacted on dividend pay-out. Dahlquist (2001) examined the effect of managerial ownership and dividend policy of several firms in 37 countries, a longitudinal design was used in a period spanning for ten years and time series data, the findings showed that firms were more likely to pay dividends when the larger shareholders were not insiders. Most of the management preferred to retain their earnings instead of distributing it to the stakeholders in form of dividends with a view of using these resources to grow and expand the business as well as personal benefits. Interestingly, Eckbo and Verma (1994) avowed that dividend declined with respect to high concentration of managerial ownership. He argued was based on the understanding that firms that recorded high levels of managerial ownership reported positive associations with dividend pay-out unlike those firms whose managerial ownerships held low concentration. It was concluded that the level of managerial ownership highly influenced pay-out of dividends. Onyancha, & Prof. Willy Mwangi Muturi. (2023), in his study results revealed that weakly governed managers faced a trade-off amid flexibility gains and expected stakeholder reaction to dividend decisions. In the absence of strong corporate governance, dividends can enhance efficient management investments and thus minimize agency problem. Espen and Verma (2014) the research revealed a statistically significant relationship between managerial ownership and dividend policy was found to be present. In difference to our findings, a study done by Chen et al., (2005) results showed a negative association between managerial ownership and dividend policy. A study done by Wen and Jia (2010), results revealed that managerial and institutional ownership was negatively associated to dividend policy. Mehrani et al., (2011) showed an inverse relationship amidst managerial ownership and dividend payment policy in Tehran Stock Exchange. The findings showed that institutional type of ownership was inversely linked to dividend pay-out. Further, the association between managerial ownership and divided policy has been found to be negative in both developed and developing economies. Shabbir et al., (2013) in their study the findings showed that there was a diverse connection between the firm’s market value and managerial ownership. This is based on the understanding that if Q happens to fluctuate and then it raises the amount of board of directors’ owners will increase in the firm. Ullah et al., (2012) in their study, it was discovered an inverse link between managerial ownership and dividend pay-outs and positive relationships among institutional and foreign ownerships and dividend pay-outs. The findings also found that control variables such as management competence index and firm size reported a positive connection to dividend policy.

4.2.3.4 Effect of Foreign Ownership on Dividend Policy of Financial Firms

The study examined the impact of foreign ownership on the dividend policies of 63 firms listed on the NSE from 2017 to 2021. The research identified that some of these firms had foreign ownership. A Pearson correlation analysis was conducted to determine the relationship between foreign ownership and dividend payout. The results showed a positive but statistically insignificant relationship, indicating that foreign ownership had a limited effect on dividend payout. These findings were consistent with some prior studies, such as Sackinc and Gungor (2015), which also found a negative connection between foreign ownership and dividend, while other studies like Shukla (2014) and Baba (2009) suggested a positive link between foreign ownership and dividend payment. The study highlighted the potential influence of foreign ownership on dividend decisions in emerging markets, with large foreign institutional investors having more significant sway on these decisions. However, it also noted that the correlation between foreign ownership and dividend policy could be complex and influenced by various factors such as cultural backgrounds and information...
access. In summary, the research revealed that foreign ownership can play a role in shaping dividend policies in developing economies, but the impact may vary, and further studies are needed to better understand this relationship (Mwaura, & Nasieku, 2023).

Summary, Conclusion and Recommendation of Findings

5.1 Summary of Findings
The general objective of this study was to determine the effect of ownership structure on dividend policy of firms listed at the Nairobi Securities Exchange. The specific objectives of the study were to determine how state ownership, institutional ownership, managerial ownership and foreign ownership affects dividend policy of firms listed at the NSE. This study adopted a longitudinal research design and the population of this study included listed firms in the sector at NSE as at December, 2022. Listed firms were chosen for this study because of their uniqueness in products and services and the nature of operations. A data collection schedule was used to collect the information which included the proportion of common shares held per ownership structure for all the firms in the target population for each year in the study period and the respective dividend policy for the year. The research measured state ownership as the percentage of total outstanding shares of the firm held by the states. Similarly, to assess the effect of institutional ownership in the dividend policy of financial firms the research measured institutional ownership as the percentage of total outstanding shares of the firm held by the various institutions. To assess the effect of foreign ownership in the dividend policy of financial firms the research measured foreign ownership as the percentage of total outstanding shares of the firm held by foreign institutions and individuals.

5.2 Conclusions of the Study

5.2.1 Effects of State Ownership on Dividend Policy of Financial Firms
The findings presented showed that states ownership varies over time and for this study period, 2017 had the highest mean while the study recorded the lowest in 2020. The findings presented from the regression analysis showed that with all other variables held at zero, a unit change in in state ownership would resulted into a negative change in payo ut ratio. This implied that firms tend to increase their dividend payout according to foreign ownership.

5.2.2 Effects of Institutional Ownership on Dividend Policy of Financial Firms
The results indicated that majority of the firms have institutional shareholders and this ensures improved performance. This is because institutional investors have a better incentive and capabilities to collect and evaluate information pertaining to their investments on a regular basis. They also possess the capacity and capability to amend or bring up clauses that may act as deterrents, bring changes and caution management when the firm performs inadequately.

5.2.3 Effect of Managerial Ownership Dividend Policy Of Financial Firms
The findings presented also showed that with all other variables held at zero, a unit change in managerial ownership would lead to a positive but insignificant change in payout ratio. Managerial ownership promotes the interests of the management and stakeholders and this minimizes conflict of interests with respect to shareholder’s wealth maximization.

5.2.4 Effect of Foreign Ownership on Dividend Policy of Financial Firms
The findings presented also showed that a unit change in foreign ownership would lead to positive but insignificant change in pay-out ratio. This implied that firms tend to increase their dividend payout according to foreign ownership. This indicated that firms tend to adjust their financial strategies according to the possible internationalization of ownership structure. This is a factor that may be attributed to the fact that foreign-owned firms can possess firm-specific advantages in form of better technological, financial, human expertise, experience, or resources, which give them more credibility and a stronger reputation than local firms enhancing them to achieve superior performance. Foreign ownership enhances the interests of foreign analysis in firms and as such foreign analysis pushes the management to unveil their financial policies, through increasing their level of monitoring on the activities of the management and thus have limited need for the dividend-prompted monitoring tool.

5.3 Recommendations of the Study

5.3.1. Effects of State Ownership on Dividend Policy of Financial Firms
The findings presented also showed change in state ownership would have an inverse effect on pay-out ratio. There is a generally accepted view that state owned institutions are inefficient due to lack of separation of ownership and control
making it very difficult to monitor managers. This study thus recommends that the financial firms should consider infusing management systems and divestiture program to attract more private individuals and institutions to co-own in firms with a majority state corporations share. Further the government should consider incorporating trainings on entrepreneurial skills and business acumen to make government owned firms to have advantage in terms of management, retaining some ownership in foreign and local firms to enhance shareholder’s confidence, protection of investments and managerial monitoring.

5.3.2 Effects of Institutional Ownership on Dividend Policy of Financial Firms
The findings presented institutional ownership had a negative effect on the pay-out ratio. The study recommends that there should be policies set up to ensure that firms grow in age and size and spread out as a way of attracting more skills and competencies among the shareholders that can be tapped to improve firm performance. Further, the firms should consider adopting a combination of different ownership structure as a strategy to gain competitive advantage both in domestic and foreign markets. Different investors should also be incorporated to bring on board a wide variety of skill and resources which can significantly impact on their financial performance financial firms.

5.3.3 Effect of Managerial Ownership on Dividend Policy of Financial Firms
The Stakeholder’s theory emphasizes that shareholders and management must engage each other in making managerial decision as part of the strategic planning process which is imperative to successful long-term planning. Therefore, the study recommends that in addition to incentive pay, the shareholdings of managers should be encouraged as a good incentive mechanism to aid the management and the shareholders to become united to promote the interest of both so that the managers will devote more time in the development of long-term interests of the firm therefore contributing to achievement of the contract objectives.

5.3.4 Effect of Foreign Ownership on Dividend Policy of Financial Firms
The study recommends that policy makers should create a conducive environment which will seek to attract more foreign investors, bearing the fact that foreign investors can bring along firm-specific advantages that may not be easily available to domestic firms. Foreign investors may also share better technological, financial, or human expertise, experience, or resources, which instead will offer stronger reputation for the local firm. Due to the changing business environment coupled with global competition, foreign investors should open opportunities for investors globally, the study recommends that there is need of having investor across all the economy ranging from Government, Foreigners and even local investors.

5.4 Areas for Further Research
The study only reviewed a sample of publicly listed firms and did not cover private or small firms. Therefore, the study recommends a further study to be carried out to include private and small firms to enable generalization of the results of effects of ownership structure on Dividend policy of firms. The study focused only on the Dividend policy of firms and ignored the non-financial goals which can be of critical importance to ownership structures. Therefore, the study recommends future study to take into account both financial and non-financial goals and assess them in firms having different ownership structures. The study only collected information and views from the company’s financial statements and ignored interested stakeholders and therefore the study recommends that future studies should incorporate the views of stakeholders and investors as they play a significant role in the performance of the company. The study found out that different ownership structures did not significantly influence dividend policy of firms but did not come up with any minimum threshold of different ownership structures that can guide regulatory bodies in forming a policy of the required minimum threshold of different shareholding required for a firm to be listed. Further studies should be carried out to establish minimum required threshold of different ownership structure for to enhance dividend policy of listed firms. Further arising from the findings and the gaps in this study, a replica study is recommended in other firms in order to test whether the conclusions of this study will hold true

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