FACTOR AFFECTING DIVIDEND PAYOUT RATIO AMONG KENYA COMMERCIAL BANKS: CASE OF BANKS IN EMBU COUNTY.

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ABSTRACT

The study aims to provide factors affecting dividends payout ratio in commercial banks in Embu County. Under prudential guidelines from Central Bank of Kenya, commercial banks operating in Kenya are required to maintain a minimum cash reserve ratio. This affects bank dividend policy financing decision. In this study major factors that affect dividend payout ratio will be focused and they are size, profitability and liquidity of banks. Effect of each factor will be studied focusing on various ratios that measure each factor. Major dividends payout theories such as Modigliani and Miller dividend irrelevancy theory, dividend signaling theory and Bird in hand theory has been discussed. Modigliani and Miller show that dividends are irrelevant in presence of perfect capital markets, while Litner argues that investors place value on liquid cash dividends payment. Dividend signaling theory supports dividends payment and says that dividends provide dependable signal to shareholders about organisation's underlying performance. The results from the study are important to the future researchers, bank management, shareholders and government regulatory bodies. Conceptual framework shows the connection of independent variables and dependent variables. Under research methodology descriptive design was adopted and secondary data was used in the study. Under research findings and discussions, all the three variables size,profitability and liquidity were found to have a positive relationship to dividends payout ratio. It was evident that large banks pay dividends than small banks, the banks that earn profits pay dividends than non-profit making banks and finally banks that are more liquid are likely not to pay dividends.