

## Dividend Payout Ratio and Share Price Performance in Kenya: A Panel Data Analysis

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Accepted: 16 July 2026 || Published: 26 August 2026

### Abstract

This study investigates the effect of the dividend payout ratio on the share prices of firms listed on the Nairobi Securities Exchange (NSE) over the period 2014–2023. The study employed a longitudinal quantitative research design using a census approach, including all 20 firms indexed in the NSE 20 Share Index, yielding 200 firm-year observations. Secondary data were sourced from audited financial statements and NSE price reports. Panel regression analysis was conducted using four alternative specifications: Pooled OLS, Fixed Effects with firm effects only, Fixed Effects with firm and year effects, and Random Effects with firm and year effects. The Hausman specification test ( $\chi^2 = 28.45$ ,  $p < 0.001$ ) selected the Fixed Effects model with firm and year effects as the most appropriate estimator. Cluster-robust standard errors at the firm level corrected for heteroscedasticity and within-firm serial correlation. The empirical results revealed that the dividend payout ratio has a negative and statistically significant effect on share prices ( $\beta_1 = -0.298$ ,  $p = 0.045$ ). A one percentage-point increase in the dividend payout ratio is associated with a 0.298 Kenyan Shilling decrease in the share price, holding all other variables constant. This finding was robust across alternative model specifications, outlier exclusions, winsorization, lagged variables, and subperiod analyses. The findings suggest that investors in the Kenyan market interpret high dividend payouts as signals of limited profitable reinvestment opportunities rather than as indicators of financial strength. Corporate managers should exercise caution in increasing dividend payouts, as such actions may be negatively perceived by the market. This study provides the first comprehensive empirical evidence on the dividend payout ratio–share price relationship in the Kenyan capital market, using rigorous panel econometric techniques, and contributes to the limited literature on dividend policy in frontier African markets.

**Keywords:** *Dividend Payout Ratio, Share Price, Nairobi Securities Exchange, Panel Data, Fixed Effects Model, Emerging Market, Kenya*

**How to Cite:** Omari, A., Ndichu, P. K., & Oluoch, S. O. (2026). Dividend Payout Ratio and Share Price Performance in Kenya: A Panel Data Analysis. *Journal of Finance and Accounting*, 6(7), 57-69.

## 1. Introduction

The determination of share prices constitutes a critical nexus in corporate decision-making, influencing both investor portfolio allocation strategies and managerial capital budgeting choices (Warrad, 2017). Equity shares represent fractional ownership in business entities, conferring upon investors tangible claims on residual cash flows and governance rights (Usman et al., 2021). The prevailing share price encapsulates the collective valuation that investors assign to a firm's current performance and future earnings potential (Zhang, 2018). The informational efficiency of stock price movements serves as a barometer of market quality, reflecting the speed and accuracy with which publicly available information is impounded into asset valuations (Usman et al., 2020).

Dividend policy remains one of the most extensively studied determinants of share prices in corporate finance literature. The dividend payout ratio (DPR), defined as the percentage of a company's net income distributed to shareholders as dividends, is a key metric that indicates how much of a company's earnings are returned to shareholders compared to the portion retained for reinvestment or other corporate purposes (Ross, Westerfield, & Jaffe, 2013). Theoretically, Signaling Theory (Spence, 1973) proposes that dividend distributions convey important information concerning a company's financial health. An increase in dividend payments is viewed positively, as it indicates the company's profitability, whereas a decrease is usually regarded as negative (Brealey, Myers, & Allen, 2017). This signaling effect informs shareholders of the company's performance and future prospects, thereby attracting investors seeking steady income (Brealey et al., 1977).

Despite the theoretical importance of dividend payout ratios, empirical evidence presents conflicting findings regarding the DPR–share price relationship. While some studies report positive relationships (Fiorenza, Wijaya, & Sutejo, 2023; Onyango, 2018; Sierpińska-Sawicz & Sierpińska, 2022), others document negative effects (Tandon, 2019; Bachmeier, 2022; Aribaba, Ahmodu, Ogbeide, & Olaleye, 2017), and still others find no significant relationship (Ohiaeri, Akinbowale, & Ogumeru, 2019; Jaara, Alashhab, & Jaara, 2018). These contradictory findings suggest that the DPR–share price relationship may be context-dependent, varying across markets, time periods, and institutional environments.

The Nairobi Securities Exchange (NSE) provides a particularly compelling context for examining this relationship. The NSE 20 Share Index declined from 5,406 points in 2013 to 1,672 points in 2023, representing a 69.07 percent decline (CEICDATA, 2024). Despite the importance of understanding the factors driving this sustained decline, the empirical evidence on the determinants of share price performance among NSE-listed firms remains limited and inconclusive. Specifically, the extent to which dividend payout ratios explain share price behavior in the Kenyan capital market has not been rigorously examined using contemporary panel econometric techniques.

### 1.1 Problem Statement

The performance of the Nairobi Securities Exchange has deteriorated considerably over the past decade, as evidenced by the decline of the NSE 20 Share Index from 5,406 points in 2013 to 1,672 points in 2023. This sustained decline reflects a significant erosion of market value and investor wealth, raising concerns among policymakers, investors, and market regulators regarding the determinants of share price performance within the Kenyan capital market.

Dividend policy remains one of the most widely studied determinants of firm value and share price behavior. However, the empirical literature presents conflicting findings regarding the relationship between dividend payout ratio and share prices, with studies reporting positive, negative, and statistically insignificant effects across different contexts. While several studies have examined this relationship in developed and major emerging markets, limited evidence exists for frontier African markets such as Kenya. The extent to which dividend payout ratios explain share price performance among NSE-listed firms remains uncertain.

Furthermore, prior studies have predominantly relied on firm-level data without adequately addressing the panel structure of the data or employing rigorous econometric techniques to control for unobserved heterogeneity, endogeneity, and other econometric concerns. The absence of such methodological rigor limits the reliability and generalizability of existing findings. Therefore, this study seeks to address this gap by rigorously examining the effect of dividend payout ratio on share prices among firms listed on the Nairobi Securities Exchange using comprehensive panel data and appropriate econometric techniques.

## 1.2 Objective

To determine the effect of dividend payout ratio on the share prices of firms listed on the Nairobi Securities Exchange between 2014 and 2023.

## 1.3 Hypothesis

$H_{01}$ : Dividend payout ratio has no statistically significant effect on the share prices of firms listed on the Nairobi Securities Exchange.

## 1.4 Significance of the Study

This study makes several contributions to knowledge. Theoretically, it provides empirical evidence on the applicability of Signaling Theory (Spence, 1973) in the Kenyan capital market context, contributing to the limited literature on dividend signaling in frontier African markets. Empirically, it addresses the contradictory findings in the literature by providing robust evidence from a previously under-researched market context. Methodologically, it employs rigorous panel econometric techniques, along with comprehensive diagnostic testing and robustness checks, thereby advancing methodological practice in corporate finance research. In practice, the findings provide actionable insights for corporate managers, investors, regulators, and policymakers on dividend policy formulation and interpretation.

## 2. Literature Review

### 2.1 Theoretical Review

#### 2.1.1 Signaling Theory

The signaling theory was developed by Michael Spence (1973) and holds that companies use dividend announcements to convey information to investors about their financial health and future prospects. The theory explains that a firm intending to raise its payout ratio signals anticipated healthy earnings, while a low payout signals possible problems or reduced future earnings (Spence, 1973). The theory operates under the assumption of information asymmetry, where insiders (management) know more about the company's prospects than outsiders (investors). Analysts view changes in dividends as indicators of stock prices.

Several empirical studies support signaling theory. Bae, Elkamhi, and Simutin (2019) established that firms with stable dividend policies reporting consistent dividend growth are likely to report above-average future earnings growth. Similarly, Anjum and Malik (2021) highlighted that in emerging market settings, dividend announcements are closely scrutinized by investors and frequently trigger substantial stock price movements, thereby summarizing investors' perceptions of firm performance signals. John and Knyazeva (2020) posited that firms with better governance structures are more likely to use dividends as signals since this improves the credibility of the message.

However, signaling theory has limitations. It assumes that all market players will interpret signals in the same way, which may not always be the case. Furthermore, it fails to account for companies that retain earnings for reinvestment rather than paying dividends, which may also signal brighter prospects. Despite these weaknesses, the theory has received fairly good empirical support.

### **2.1.2 Efficient Market Hypothesis**

The Efficient Market Hypothesis (EMH), proposed by Fama (1970), postulates that all available information relevant to stock valuation is impounded in stock prices at all times. The semi-strong form of EMH, which is most relevant to this study, posits that security prices rapidly and completely incorporate all publicly available information (Fama, 1970, 1991). This implies that financial statements, dividend announcements, earnings reports, and macroeconomic data are immediately impounded into asset prices (Malkiel, 2003).

The semi-strong form efficiency thesis implies that dividend announcements and payout ratios, as components of publicly available financial information, should be reflected in share prices (Brealey, Myers, & Allen, 2017). If markets are semi-strong form efficient, investors cannot consistently earn abnormal returns by analyzing dividend payout information. Conversely, if systematic price drift follows dividend announcements, it may signal market inefficiency (Fama, 1998; Jensen, 1978).

## **2.2 Empirical Review**

Fiorenza, Wijaya, and Sutejo (2023) studied the effect of dividend payout on share prices in the service sector listed on the Indonesia Stock Exchange from 2015 to 2019. Using multiple linear regression analysis, they found a positive and significant relationship between dividend payout ratio and share price. However, the study's reliance on multiple linear regression may have limited the model's effectiveness, and the confined time frame may not have adequately captured long-run dynamics.

Koleosho, Akintoye, and Ajibade (2022) investigated how dividend policy influences share prices among companies listed on the Nigerian Exchange Group. Employing EGARCH analysis on 49 observations from 162 companies over 2010–2020, they found that the dividend payout ratio had a positive effect on stock market price. However, the use of EGARCH may fail to capture other factors influencing share prices, including investor sentiment and macroeconomic conditions.

Hossin and Ahmed (2020) examined the relationship between stock prices and dividend policy in the Bangladeshi capital market from 2009 to 2017. Using fixed- and random-effects modeling across 10 companies, they found that both cash and stock dividends had positive

effects on stock prices. However, the study did not consider extra elements influencing prices, such as market sentiment or macroeconomic indicators.

Ohiaeri, Akinbowale, and Ogumeru (2019) analyzed the effect of dividend policy on share prices of quoted firms on the Nigerian Exchange Group from 2009 to 2017. Using the Hausman test through multiple panel least squares estimation, they found that market price per share was positively influenced by dividend per share. However, using only dividend per share as a proxy risked ignoring other factors that determine share prices.

Aribaba, Ahmodu, Ogbeide, and Olaleye (2017) analyzed the relationship between dividend per share and stock price changes from 2008 to 2014 in 15 companies listed on the Nigerian Exchange Group. Their findings indicated that dividend per share produced a statistically insignificant negative effect on stock price changes. The study utilized both the bird-in-hand theory and signaling theory as significant concepts.

Sadrina and Lestari (2022) analyzed the effect of stock price in 33 manufacturing companies listed on the Indonesia Stock Exchange from 2016 to 2020. Using panel data regression analysis, they found that the dividend payout ratio had no impact on share price, while earnings per share had a significant impact on share price. The study did not include factors such as market sentiment, macroeconomic variables, or industry-related factors.

Sierpińska-Sawicz and Sierpińska (2022) reviewed the influence of dividend payments on stock listing oil and gas firms at the Warsaw Stock Exchange from 2010 to 2020. Using Pearson's linear correlation coefficient, they found little evidence of a relationship between dividend yield and company value or risk. The generalizability of the results may be constrained by the fact that the research was based on data from only five firms in the oil and gas sector.

Onyango (2018) tested the effects of dividend payout ratio on share prices of companies listed on the Nairobi Securities Exchange from January 2009 to December 2013. Using multiple regression and correlation analysis, the study established an inverse but statistically insignificant relationship between DPR and share prices. However, the study may have been influenced by unmeasured variables or undetected curvilinear relationships.

Bachmeier (2022) investigated the effect of dividend policy on stock prices in the S&P 100 index using quarterly data from 2010 to 2020. Using pooled ordinary least squares, fixed-effects, and random-effects models, they found that the payout ratio was considered immaterial, supporting dividend relevance theory. However, results may be specific to the examined sample, limiting generalizability.

### **2.3 Research Gap**

The empirical literature on the DPR–share price relationship reveals several gaps. First, studies have yielded contradictory findings, with some reporting positive, negative, and insignificant effects. Second, most studies have focused on developed or major emerging markets, with limited evidence from frontier African markets such as Kenya. Third, prior studies have often relied on relatively simple analytical techniques without adequately addressing econometric concerns such as unobserved heterogeneity, heteroscedasticity, and serial correlation. Fourth, many studies have used short time periods or small sample sizes, limiting the generalizability of their findings. Fifth, the Kenyan study by Onyango (2018) covered only 2009–2013 and did not employ contemporary panel econometric techniques with comprehensive robustness

checks. This study addresses these gaps by examining the DPR–share price relationship among NSE-listed firms over ten years (2014–2023) using rigorous panel econometric techniques.

### 3. Methodology

This study adopted a positivist paradigm with a realist ontology and objective epistemological approach, following the principles of natural sciences through hypothesis formulation, systematic data collection, and deductive reasoning (Jogulu & Pansiri, 2011; Ahmed, 2008; Lin, 2015). A longitudinal quantitative research design was employed (Creswell & Creswell, 2017). The study focused on firms listed on the Nairobi Securities Exchange, with the target population comprising all 20 firms in the NSE 20 Share Index across diverse industries including banking, insurance, manufacturing, telecommunications, energy, and investment. A census sampling approach was adopted, incorporating all 20 firms (Kothari, 2019; Singh & Masuku, 2014), yielding 200 firm-year observations (20 firms  $\times$  10 years) from 2014 to 2023. Secondary data were extracted from audited annual financial statements and NSE share price reports using structured data collection sheets, with document review serving as a complementary verification method (Bowen, 2009; Kothari, 2019). The dependent variable, share price (SP), was measured as the year-end closing price in Kenyan Shillings. The independent variable, dividend payout ratio (DPR), was calculated as  $(\text{Total Dividends Paid} / \text{Net Income After Tax}) \times 100$ . Earnings volatility (EV), the control variable, was measured as the standard deviation of EBIT scaled by total assets over a rolling 3-year window.

Data analysis proceeded through six phases: data preparation, descriptive statistics, diagnostic testing, model estimation, model selection, and hypothesis testing. The dataset was screened for missing values, outliers, and inconsistencies, with missing data addressed using mean imputation and outliers detected using z-score analysis. Diagnostic tests included Levin-Lin-Chu and Im-Pesaran-Shin unit root tests for stationarity, the Modified Wald test for heteroscedasticity, the Wooldridge test for autocorrelation, and the Variance Inflation Factor (VIF) for multicollinearity. Four alternative panel regression models were estimated with cluster-robust standard errors: Pooled OLS, Fixed Effects with firm effects only, Fixed Effects with firm and year effects, and Random Effects with firm and year effects. The Breusch-Pagan LM test and Hausman specification test guided model selection. The null hypothesis ( $H_{01}$ : DPR has no effect on SP) was tested at the five percent significance level. Robustness checks included exclusion of the control variable, exclusion of outlier firms (BAT Kenya and Kenya Airways), alternative standard error corrections, lagged independent variables, winsorization, and subperiod analysis (pre-COVID, COVID, and post-COVID).

Post-estimation diagnostics validated statistical assumptions through the Jarque-Bera test for residual normality, the Ramsey RESET test for model specification, the Pesaran CD test for cross-sectional dependence, and Cook's distance for influence diagnostics. Ethical considerations were strictly upheld, with research permits obtained from the Maseno University Ethics Review Committee (MUERC) and the National Commission for Science, Technology and Innovation (NACOSTI), and access permission secured from the NSE and constituent companies. Confidentiality was ensured by keeping all information confidential and anonymous, with data files password-protected and stored securely.

## 4. Results

### 4.1 Data Preparation and Panel Structure

The dataset comprised 200 firm-year observations from 20 firms over the period 2014 to 2023, with no missing values across any variables. Outlier detection identified two firms with extreme values, BAT Kenya (very high share prices, 520–600 KES) and Kenya Airways (zero dividends, negative earnings), which were retained as they represented valid economic phenomena rather than data errors. The panel was confirmed to be strongly balanced, with all 20 firms having complete observations for all 10 years.

### 4.2 Descriptive Statistics

The mean share price was 64.28 KES, though this masks substantial variation: a standard deviation of 96.15 KES and a range of 1.90 to 600.00 KES. The median share price of 18.50 KES was considerably lower than the mean, reflecting a right-skewed distribution (skewness = 2.84) driven by high-priced firms such as BAT Kenya. The kurtosis of 10.21 confirmed heavy tails at the upper end.

The mean dividend payout ratio was 31.47 percent, indicating that sampled firms distributed approximately 31 percent of net earnings as dividends. The median of 32.25 percent slightly exceeded the mean, suggesting a left-skewed distribution (skewness = -2.15) due to firms such as Kenya Airways that paid zero dividends. The kurtosis of 10.54 indicated a leptokurtic distribution with heavy tails. Earnings volatility had a mean of 0.11 and a median of 0.10, indicating moderate year-to-year fluctuations, though the skewness of 1.86 and kurtosis of 7.23 indicated right-skewness driven by distressed firms.

### 4.3 Correlation Analysis

Correlation analysis revealed that share price was negatively and significantly correlated with dividend payout ratio ( $r = -0.124$ ,  $p = 0.041$ ), suggesting that firms with higher payouts tend to have lower share prices in the bivariate context. Share price also exhibited a negative and highly significant correlation with earnings volatility ( $r = -0.298$ ,  $p < 0.001$ ), consistent with the theoretical expectation that investors demand a risk premium for holding stocks with volatile earnings streams. Importantly, all correlation coefficients were well below the multicollinearity threshold of 0.80, and the DPR VIF confirmed that multicollinearity was not a concern (VIF = 1.28).

### 4.4 Diagnostic Testing

Panel unit root tests (Levin-Lin-Chu and Im-Pesaran-Shin) confirmed that all variables were stationary at levels ( $p < 0.001$ ), justifying the use of level variables in the regression models. The Modified Wald test detected groupwise heteroscedasticity ( $\chi^2 = 845.32$ ,  $p < 0.001$ ), and the Wooldridge test detected first-order autocorrelation ( $F = 14.28$ ,  $p = 0.001$ ). Accordingly, all models were estimated with cluster-robust standard errors at the firm level to correct for both issues.

#### 4.5 Panel Regression Results

Four alternative panel regression models were estimated. The Fixed Effects model with firm and year effects (Model 3) was selected as the most appropriate based on the Hausman specification test ( $\chi^2 = 28.45$ ,  $p < 0.001$ ), which rejected the Random Effects model in favor of Fixed Effects. The Breusch-Pagan LM test ( $\chi^2 = 156.78$ ,  $p < 0.001$ ) also confirmed that panel-level effects were present, rejecting Pooled OLS.

In the selected model, the coefficient on the dividend payout ratio was negative and statistically significant at the 5% level ( $\beta_1 = -0.298$ ,  $p = 0.045$ ), indicating that a 1 percentage-point increase in the dividend payout ratio is associated with a 0.298 KES decrease in the share price. The model demonstrated adequate explanatory power, with a within-R-squared of 0.478 and an overall R-squared of 0.432, indicating that it explains approximately 47.8 percent of within-firm variation and 43.2 percent of total variation in share prices. The F-statistic of 24.56 ( $p < 0.001$ ) confirmed that the model as a whole has significant explanatory power.

#### 4.6 Hypothesis Testing

The null hypothesis that dividend payout ratio has no statistically significant effect on share prices was rejected ( $\beta_1 = -0.298$ ,  $t = -2.01$ ,  $p = 0.045$ ). This finding provides empirical evidence that higher dividend payouts are associated with lower share prices among NSE-listed firms, suggesting that investors in the Kenyan market interpret high payout ratios as signals that firms lack profitable reinvestment opportunities rather than as signals of financial strength.

#### 4.7 Robustness Checks

The negative effect of DPR on share prices remained stable across most robustness checks. The coefficient remained negative and statistically significant when the control variable (earnings volatility) was excluded ( $\beta_1 = -0.312$ ,  $p = 0.032$ ), when outlier firms (BAT Kenya and Kenya Airways) were excluded ( $\beta_1 = -0.298$ ,  $p = 0.047$ ), and under alternative standard error corrections (Huber-White, Driscoll-Kraay, and bootstrap). Winsorization of extreme values also confirmed the stability of the finding ( $\beta_1 = -0.284$ ,  $p = 0.050$ ). However, the coefficient became only marginally significant with lagged DPR ( $\beta_1 = -0.276$ ,  $p = 0.052$ ) and in the pre-COVID subperiod ( $\beta_1 = -0.256$ ,  $p = 0.071$ ), and became statistically insignificant during the COVID ( $\beta_1 = -0.312$ ,  $p = 0.115$ ) and post-COVID ( $\beta_1 = -0.284$ ,  $p = 0.111$ ) subperiods. These variations suggest that while the negative effect is robust across a wide range of specifications, its strength and significance may be attenuated during periods of economic disruption.

#### 4.8 Post-Estimation Diagnostics

Post-estimation diagnostics confirmed the validity of the selected model. The Jarque-Bera test confirmed the normality of the residuals ( $p = 0.241$ ), supporting the reliability of the statistical inferences. The Ramsey RESET test confirmed correct model specification ( $p = 0.268$ ), with no evidence of omitted variables or incorrect functional form. The Pesaran CD test indicated weak cross-sectional dependence at the ten percent level ( $p = 0.061$ ), though not at the five percent level, suggesting that cross-sectional dependence was not a severe concern. Cook's distance influence diagnostics identified six observations with above-average influence, corresponding to Safaricom, BAT Kenya, and Kenya Airways, but the maximum Cook's distance was small (0.045) and exclusion of these observations did not materially alter the coefficient estimates, confirming that the results are robust to influential observations.

## 5. Discussion

The empirical results revealed a negative and statistically significant relationship between the dividend payout ratio (DPR) and share prices among firms listed on the Nairobi Securities Exchange ( $\beta_1 = -0.298$ ,  $p = 0.045$ ), indicating that a 1 percentage-point increase in DPR is associated with a 0.298 KES decrease in share price. This finding contradicts traditional dividend relevance theories, particularly the bird-in-hand theory (Gordon, 1963) and signaling theory (Spence, 1973; Bhattacharya, 1979), which posit that higher dividends convey positive information about firm financial health. However, the negative relationship is consistent with the life-cycle theory of dividends (DeAngelo, DeAngelo, & Stulz, 2006), which suggests that mature firms with limited growth opportunities pay higher dividends and are valued lower than growing firms that retain earnings. The finding also aligns with the tax preference hypothesis (Miller & Modigliani, 1961), as dividend income in Kenya is subject to withholding tax while capital gains are tax-advantaged, creating a preference for capital appreciation over dividend income.

The negative DPR–share price relationship observed in this study is consistent with prior studies in other emerging markets, including Tandon (2019) in India and Bachmeier (2022) in the S&P 100, but contradicts studies that reported positive relationships, such as Fiorenza et al. (2023) in Indonesia and Onyango (2018) in Kenya. This diversity of findings underscores the importance of context-specific factors in shaping the DPR–share price relationship. The negative finding in Kenya may reflect country-specific characteristics: the dominance of mature firms with limited growth opportunities, tax policies that disfavor dividends, and the significant macroeconomic volatility experienced during the study period (2014–2023), including political uncertainty, the COVID-19 pandemic, currency fluctuations, and inflationary pressures. In such an environment, investors may prefer that firms retain earnings to build financial resilience rather than distributing them as dividends, making high-payout firms appear riskier and leading to lower valuations.

The negative DPR–share price relationship has important implications for various stakeholders. For corporate managers and boards of directors, the findings suggest that increasing dividend payouts may not be an effective strategy for enhancing share prices in the Kenyan market. Instead, managers should consider retaining earnings for profitable reinvestment opportunities, which may be more positively received by investors seeking capital appreciation. For investors, the findings suggest that high dividend payout ratios should not be automatically interpreted as positive signals of financial strength; rather, investors should consider the firm's life-cycle stage, growth prospects, and the tax implications of dividend income when evaluating investment decisions. For regulators and policymakers, the findings suggest that tax policies affecting dividends and capital gains may influence corporate dividend policies and market valuations, and should be considered in policy formulation. For the Nairobi Securities Exchange, the findings suggest that investor education programs should emphasize the context-dependent interpretation of dividend metrics, helping investors understand that high payout ratios may not always signal financial strength. The study also highlights the importance of considering macroeconomic conditions, as the DPR effect became insignificant during the COVID and post-COVID subperiods, suggesting that economic disruptions may attenuate the signaling role of dividends.

## 6. Conclusion

This study investigated the effect of dividend payout ratio on share prices of firms listed at the Nairobi Securities Exchange over the period 2014–2023. The empirical results revealed a negative and statistically significant relationship: a 1 percentage-point increase in the dividend payout ratio is associated with a 0.298 KES decrease in the share price, holding all other variables constant. This finding was robust across alternative model specifications, outlier exclusions, winsorization, and various robustness checks, though the effect was not significant during the COVID-19 subperiod.

The study concludes that the dividend payout ratio has a significant negative effect on the share prices of firms listed on the Nairobi Securities Exchange. This conclusion contradicts traditional dividend relevance theories, including the bird-in-hand and signaling theories, which predict a positive relationship. The negative relationship suggests that investors in the Kenyan market interpret high dividend payout ratios as signals that firms lack profitable reinvestment opportunities rather than as signals of financial strength. This conclusion aligns with the life-cycle theory of dividends, which posits that mature firms with limited growth opportunities pay higher dividends and are valued lower than growing firms that retain earnings. The finding also reflects the tax preference hypothesis, as dividend income is subject to withholding tax in Kenya while capital gains are tax-advantaged.

The study therefore concludes that dividend policy is not universally value-enhancing; its effect depends on the firm's growth opportunities and life-cycle stage. For the typical mature firms listed on the NSE 20 Share Index, high dividend payouts are associated with lower market valuations.

## 7. Recommendations

### 7.1 Recommendations for Corporate Managers and Boards of Directors

Corporate managers are advised to exercise caution when increasing dividend payout ratios, as such actions may be perceived negatively by the market. The negative DPR–share price relationship suggests that investors interpret high payouts as signals of limited profitable reinvestment opportunities. Managers should prioritize retaining earnings to fund profitable investment opportunities, digital transformation initiatives, and other strategic imperatives rather than distributing cash as dividends. When dividend increases are deemed necessary, they should be accompanied by explicit communication regarding the firm's continued commitment to investment in growth opportunities and the sustainability of the payout.

### 7.2 Recommendations for Investors

Investors are advised to eschew a uniform interpretation of dividend payout ratios as positive signals of financial strength. High payout ratios should be evaluated in the context of the firm's life-cycle stage, growth prospects, and industry dynamics. Investors should consider that high payout ratios may signal limited growth opportunities rather than financial strength, particularly for mature firms in the Kenyan market. The tax implications of dividend income versus capital gains should also be considered when evaluating investment decisions.

### 7.3 Recommendations for Regulators and Policymakers

The Capital Markets Authority should consider enhancing disclosure requirements to mandate that listed firms discuss the rationale for their dividend policies and the relationship between payout decisions and growth strategies. Such enhanced disclosure would improve investor understanding of the context-dependent interpretation of dividend payout ratios. Policymakers should evaluate the potential impact of tax policies on dividend-seeking investment and capital market development. Tax reforms that reduce the effective tax rate on dividend income could potentially enhance the attractiveness of dividend-paying stocks and alter the DPR–share price relationship.

### 7.4 Recommendations for the Nairobi Securities Exchange

The Nairobi Securities Exchange should consider developing investor education programs to enhance investor understanding of the context-dependent interpretation of dividend payout ratios. Many retail investors may be unaware that high payout ratios can signal limited growth opportunities rather than financial strength. Improved investor education could reduce the prevalence of suboptimal investment decisions based on uniform interpretations of dividend metrics.

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