Cash Dividend Payout and Firm Financial Performance Among Listed Firms at Nairobi Securities Exchange, Kenya

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Purpose: *The purpose of this study was to examine the relationship between cash dividend payout and the financial performance of firms listed on the Nairobi Securities Exchange (NSE) between 2014 and 2023. The study was anchored on the Dividend Signaling Theory and the Shiftability Theory of Liquidity, which explain how dividend policy communicates firm performance and maintains financial stability.*

Methodology: *The study adopted an explanatory and longitudinal research design. The target population comprised 62 firms listed on the NSE during the study period. Secondary data were obtained from the NSE Handbook, company websites, and Capital Markets Authority publications. Data were analyzed using SPSS Version 21, employing both correlation and regression analyses to establish the relationship between dividend payout and firm performance. Model summaries and statistical tests were generated to assess the significance of the findings.*

Findings: *The results indicated that dividend per share had a statistically significant and positive effect on firm financial performance, suggesting that higher dividend payouts enhance investor confidence and market valuation. However, financial leverage showed no statistically significant relationship with firm performance, implying that debt levels may not directly influence profitability or value creation within the study context.*

Conclusion: *The study concludes that dividend policy plays a vital role in shaping firm performance and investor confidence among NSE-listed firms. Consistent and transparent dividend distribution enhances a firm's reputation and market value, while excessive reliance on debt financing may not necessarily improve financial outcomes.*

Value*: This study contributes to the empirical literature on corporate finance by providing evidence from an emerging market perspective. It underscores the importance of sustainable dividend policies as tools for value creation and market signaling. The study recommends that firm managers maintain transparency in dividend declarations and adopt balanced capital structures to ensure financial stability. Moreover, policymakers such as the Capital Markets Authority and the Nairobi Securities Exchange should strengthen regulatory frameworks to promote prudent borrowing, consistent dividend disclosures, and long-term corporate growth in Kenya's capital market.*

Keywords: *Cash Dividend Payout, Financial Performance, Dividend Per Share, Financial Leverage*

Paper Type: *Research Article*

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1. Introduction

Firm financial performance remains a central theme in corporate finance and strategic management research, as it determines an organization's ability to generate profits, sustain growth, and create long-term value for shareholders. According to Santos and Brito (2012), firm performance represents the overall efficiency with which an organization utilizes its resources to generate returns. It encompasses three key dimensions: operational efficiency, profitability, and market valuation. Measures such as Return on Assets (ROA), Return on Equity (ROE), and Return on Sales (ROS) are commonly employed to assess internal efficiency and profitability, while market-based indicators such as Earnings per Share (EPS), Price-to-Earnings (P/E) ratio, and Market-to-Book value reflect external perceptions of firm value (Lubatkin & Shrieves, 1986; Sharma et al., 2013). Despite its importance, firm performance is influenced by several internal and external factors, including governance, market structure, and dividend policy making it a key focus for investors, regulators, and policymakers.

In contemporary corporate finance, dividend policy particularly cash dividend payout has attracted significant scholarly attention as a potential determinant of firm financial performance. Dividends represent a portion of profits distributed to shareholders and are viewed as a vital mechanism for signaling financial health and reducing agency conflicts between managers and owners (Black, Ketcham, & Schweitzer, 1995). A company's decision on how much profit to distribute or retain has far-reaching implications for investment, growth, and shareholder value. Firms with stable or increasing dividend payouts often signal strong future earnings potential and financial stability, while reductions in dividends are perceived as indicators of financial distress (Nadler, 1977). The dividend payout ratio the proportion of earnings paid out as dividends thus serves as a critical financial metric reflecting management's confidence in the firm's profitability and growth trajectory.

The relationship between dividend payout and firm financial performance has remained contentious, with two dominant schools of thought offering contrasting views. The dividend relevance theory, as advanced by Gordon (1963) and Lintner (1956), argues that dividend policy directly affects firm value because investors prefer immediate dividends over uncertain future capital gains—a concept formalized in the Bird-in-Hand Theory. Conversely, Modigliani and Miller (1961) posit that under perfect market conditions, dividend policy is irrelevant to firm value since investors can create "homemade dividends" by selling a portion of their shares. In practice, however, real-world market imperfections such as taxation, information asymmetry, and agency conflicts make dividend policy a significant determinant of firm performance. Studies such as John (2013) and Skinner and Soltes (2009) have shown that dividend decisions often mirror management's assessment of long-term sustainable earnings, further establishing the link between dividend payout and financial performance.

In the Kenyan context, firms listed on the Nairobi Securities Exchange (NSE) exhibit varying levels of financial performance, reflecting diverse strategic choices and market conditions. While firms such as Safaricom PLC have demonstrated consistent profitability and growth, others like Kenya Airways have struggled with declining performance, recurrent losses, and

restructuring challenges (Kimondo, 2014). The uneven financial outcomes across NSE-listed firms highlight the critical role of financial management practices particularly dividend decisions in shaping corporate success. Despite operating in the same macroeconomic environment, differences in dividend policies, ownership structures, and capital allocation strategies have contributed to performance disparities among listed firms. Moreover, sectors such as banking and telecommunications have outperformed manufacturing and agricultural firms, suggesting that industry dynamics and financial policies jointly influence profitability and firm value.

Empirical literature reveals persistent inconsistencies and research gaps regarding the nexus between cash dividend payout and firm financial performance. Some studies (e.g., Yegon et al., 2014; Njoroge, 2001) found a positive and significant relationship between dividend payout and performance, whereas others (e.g., Velnampy et al., 2014; Chumari, 2014) reported insignificant or negative associations. Additionally, most prior studies have focused on short timeframes or limited sectors, often excluding financial institutions or ignoring the moderating role of liquidity and firm-specific characteristics. This lack of consensus underscores the need for more comprehensive studies that examine dividend payout patterns across multiple sectors and over extended periods. Therefore, this study seeks to investigate the effect of cash dividend payout on the financial performance of firms listed at the Nairobi Securities Exchange, Kenya, to provide empirical insights relevant to investors, policymakers, and corporate managers.

2. Theoretical Review

The dividend signaling theory posits that a firm's dividend announcement communicates critical information about its financial position and future outlook. When management raises dividend payouts, it is interpreted as a positive signal of strong earnings potential, steady cash flows, and sustained profitability (Bhattacharya, 1979; John & Williams, 1985). Such actions demonstrate managerial confidence in the firm's ability to maintain operations and finance future growth without liquidity constraints. Investors often view consistent and increasing dividends as evidence of managerial competence and corporate stability, which enhances their trust in the firm's long-term financial performance (Miller & Rock, 1985; Brealey, Myers, & Allen, 2020). Consequently, dividend declarations serve a dual purpose—they provide shareholders with returns and act as indicators of a firm's enduring financial health and managerial optimism.

Empirical studies have shown that dividend announcements influence market behavior, particularly stock prices. Ross (1977) observed that share prices generally rise following dividend increases and fall after dividend reductions, suggesting that investors interpret dividend changes as informative signals about firm prospects. Because managers possess more information than external investors, they use dividend policy to communicate future expectations about earnings and cash flow. When managers foresee robust performance, they may increase dividends to signal strength; conversely, anticipated declines in earnings often result in reduced payouts. Modigliani and Miller's (1961) perspective clarifies that stock price reactions to dividend changes do not stem from investor preference for dividends but rather from the informational content of these announcements. Therefore, dividend policy functions as a communication mechanism through which investors adjust their expectations and valuations, thereby influencing overall firm performance.

The shiftability theory of liquidity, first proposed by Mouton (1918), asserts that a financial institution's liquidity depends on the composition of its asset portfolio. To ensure liquidity without incurring losses, firms maintain a substantial portion of their assets in easily tradable instruments such as treasury bills, commercial paper, and other marketable securities (Raven & Crane, 2010). The theory suggests that liquidity can be maintained if these assets can be transferred or sold to other institutions for cash without significant value loss, thus eliminating the need for holding large cash reserves. This approach enhances financial performance by allowing firms to convert idle resources into income-generating investments while retaining flexibility to meet short-term obligations (Ahmed & Abdallah, 2017). However, critics argue that this theory may falter during economic downturns when market demand for such assets declines, thereby undermining liquidity (Balogun, 2015). In the context of Kenyan listed financial firms, the shiftability theory helps explain how maintaining liquid, transferable assets influences both liquidity management and cash dividend payout decisions, ultimately affecting overall firm financial performance.

3. Empirical Review

In the most recent financial year, nearly half of the companies listed on the Nairobi Securities Exchange (NSE) failed to pay dividends, reflecting weak shareholder returns and subdued corporate performance. Data from Amwayi (2021) revealed that 28 out of 62 active firms withheld dividend payments, with some companies such as Kenya Airways, HF Group, Home Afrika, and WPP ScanGroup experiencing prolonged payout suspensions. This decline in dividend distributions has translated into lower share valuations and weaker investor confidence. By contrast, consistent dividend-paying firms like British American Tobacco (BAT) Kenya and Safaricom PLC have demonstrated resilience and long-term shareholder value creation. The disparity underscores how dividend policy decisions directly affect both firm performance and investor sentiment (Muiruki, 2021).

Notably, a large proportion of distributed income on the NSE comes from a few highly profitable firms, particularly Safaricom, which has maintained a policy of paying out 80% of its net income as dividends. Equity Bank resumed dividend payments in 2022 after a two-year suspension during the COVID-19 crisis, disbursing KES 11.3 billion and committing to a future payout ratio of 30–50% of its profits. Similarly, KCB Bank, which paid KES 9.6 billion in dividends for the same period, reduced its distributions in 2020 to finance regional acquisitions such as its KES 15 billion purchase of an 85% stake in the Democratic Republic of Congo's Trust Merchant Bank (Mwendwa & Kasera, 2022). These shifts illustrate how dividend policies influence firms' capital structure, liquidity management, and risk exposure. From an agency theory perspective, higher dividend payouts reduce excess managerial control over retained earnings, thus minimizing agency costs. However, such payouts also limit internal liquidity, potentially increasing financial risk and forcing firms to rely on external financing, which heightens scrutiny and accountability (Easterbrook, 1984).

Empirical evidence continues to link dividend payout policies with firm profitability and financial performance. Rozeff (2012) observed that dividend payout ratios affect profitability measures such as return on assets (ROA), while Holder, Langrehr, and Hexter (2008) found that dividend changes align with shifts in earnings per share (EPS). Kenyan studies have produced similar findings Nduta (2016), Wanjiku and Ngugi (2014), and Murekefu and Ouma (2012) all confirmed positive and significant relationships between dividend per share (DPS) and performance indicators like ROA and return on equity (ROE). Conversely, Farsio, Geary, and Moser (2014) cautioned that high dividend payouts might reduce funds available for reinvestment, weakening long-term growth prospects. Arnott and Asness (2003) further noted

that higher dividends are often associated with stronger future earnings, as they constrain managerial discretion and promote efficient capital allocation. These findings suggest that an optimal dividend policy balances current shareholder rewards with future investment needs—highlighting the importance of examining how cash dividend payouts influence financial performance among firms listed on the NSE. Hence, the study hypothesizes that:

H_1: *Dividend per share has statistically significant effect on firm financial performance among listed firms at NSE, Kenya*

Several theoretical and empirical perspectives have sought to explain how financial leverage affects firm performance, often yielding mixed findings across contexts and industries. The Pecking Order Theory posits that firms follow a hierarchical approach to financing—prioritizing internal funds first, then debt, and finally equity as a last resort (Mukras & Mule, 2015). This hierarchy arises from the desire to minimize financing costs and information asymmetry between managers and investors. In contrast, Modigliani and Miller's (1958) capital structure theory argues that under perfect market conditions—with no taxes, transaction costs, or bankruptcy risk a firm's value is independent of its financing structure. However, the Trade-Off Theory offers a more realistic framework, suggesting that firms pursue an optimal capital structure by balancing the tax advantages of debt with the potential costs of financial distress (Raza, 2014). Collectively, these theories underscore that leverage decisions are influenced by a firm's profitability, asset composition, and growth prospects, all of which can impact its overall financial performance.

Empirical evidence provides diverse insights into how leverage interacts with firm performance. Hashemi (2013) examined leverage determinants among 201 small and medium-sized enterprises (SMEs) in Iran between 2006 and 2010, revealing that firm size, profitability, and asset structure significantly shaped financing choices. The study also showed that SMEs preferred short-term debt over long-term borrowing to minimize financing costs and bankruptcy risk. Similarly, Rehman (2013) analyzed non-financial firms listed on the Karachi Stock Exchange (KSE) between 2007 and 2012 covering sectors such as textiles, cement, and engineering and found a positive relationship between the debt-to-equity ratio and both sales growth and return on assets (ROA). However, earnings per share (EPS) were negatively associated with leverage, suggesting that higher debt levels may erode shareholder returns despite operational gains. These findings demonstrate that while moderate leverage can enhance performance by supporting growth, excessive debt may compromise profitability due to rising interest obligations and financial vulnerability.

Other empirical studies have added further nuance to the relationship between leverage and performance. Wald (2000) observed that highly profitable firms tend to maintain lower debt ratios, preferring to finance investments internally to preserve flexibility and reduce risk exposure. Rising stock prices also encourage such firms to issue equity rather than debt, leading to lower leverage levels. Collectively, these studies reveal that leverage impacts firm performance differently depending on firm size, profitability, market structure, and the availability of financing options. In the Kenyan context, this dynamic is particularly relevant given the varying capital structures of Nairobi Securities Exchange (NSE)-listed firms across financial and non-financial sectors. Understanding how leverage decisions influence profitability and firm value is therefore critical for corporate managers and investors alike. Hence, the study hypothesizes that.

H_2: *financial leverage has statistically significant effect on firm financial performance among listed firms at NSE, Kenya*

4. Research Methodology

The study adopted an explanatory and longitudinal research design. Explanatory design was appropriate because it sought to establish and explain the causal relationship between cash dividend payout, financial leverage, liquidity, and firm financial performance—an area with limited prior research. This design allowed for hypothesis testing and provided insights into how variations in the independent variables affect firm performance over time. The longitudinal aspect involved analyzing secondary panel data covering a ten-year period (2014–2023), enabling the researcher to observe long-term trends and dynamics among firms listed on the Nairobi Securities Exchange (NSE). This approach provided both temporal depth and analytical precision, enhancing the reliability of causal inferences drawn from the findings.

Sampling

The target population consisted of all 62 firms listed at the Nairobi Securities Exchange (NSE) as of 2023. From this population, a sample of 41 firms (approximately 66%) was selected using inclusion and exclusion criteria. Firms were included if they had declared and paid cash dividends within the study period and had publicly available audited financial statements filed with the Capital Markets Authority (CMA) or uploaded on their official websites. Firms that did not pay dividends during the study period were excluded. This sampling procedure ensured that only firms with complete and reliable financial data were analyzed. The sample was distributed across key sectors such as banking, manufacturing, energy, construction, and telecommunications, providing a representative cross-section of the NSE-listed firms.

Data Collection

The study relied exclusively on secondary quantitative data obtained from audited financial statements, NSE annual handbooks, and Capital Markets Authority (CMA) publications for the years 2014–2023. Prior to data collection, an authorization letter was obtained from the National Commission for Science, Technology and Innovation (NACOSTI). A structured data checklist was developed to systematically capture relevant variables including total assets, revenues, dividends paid, net income, total debt, equity, and liquidity ratios. Data were cross-verified from company websites and NSE publications to ensure completeness and accuracy. This multi-source approach strengthened the validity of the data and minimized the risk of measurement error.

Measurement of Variables

All research variables were operationalized using financial ratios derived from secondary data. Dependent Variable (Financial Performance): Measured using the Price-to-Earnings (P/E) ratio, calculated as market price per share divided by earnings per share. The P/E ratio reflects market valuation relative to firm profitability. Dividend per Share (DPS): Computed by dividing total annual dividends by the number of outstanding ordinary shares. Financial Leverage (FL): Measured using both debt-to-equity (total debt ÷ equity) and debt-to-asset (total debt ÷ total assets) ratios to assess the firm's capital structure Firm Size: Measured as the natural logarithm of total assets. Firm Age: Determined by the number of years since the firm's incorporation as indicated in company records.

Data Analysis and Model Specification

Data were processed and analyzed using STATA. Descriptive statistics namely means, standard deviations, and ranges were computed to summarize data trends. Inferential analysis employed Pearson's correlation to test relationships among variables, and multiple regression analysis to determine the effects of dividend payout, financial leverage, and liquidity on firm financial performance. Panel data techniques were applied, with both Fixed Effects (FE) and Random Effects (RE) models estimated. The Hausman test determined the appropriate estimator. Diagnostic tests for normality, linearity, multicollinearity, heteroscedasticity, autocorrelation, and stationarity were performed to validate regression assumptions.:

$$FP = \beta_{0it} + \beta_1 fa_{it} + \beta_2 fs_{it} + \beta_3 DPS_{it} + \beta_4 FL_{it} + e_{it}$$

where FP = financial performance, fa=firm age, fs=firm size, DPS= Dividend per share, FL=financial leverage, β_{0it}= constant, i Represent the firm, t Represents the measure of time.

5. Findings

The Diagnostic tests confirmed that the data met all key assumptions required for reliable regression analysis. The Skewness-Kurtosis, Jarque-Bera, Mardia's, and Doornik-Hansen tests all yielded p-values above 0.05, confirming that residuals were normally distributed and free from extreme skewness or kurtosis. The Wooldridge test ($F(1,4) = 1.835$, $p = 0.1831$) showed no serial correlation, while White's test ($\chi^2 = 17.56$, $p = 0.6162$) and the Cameron–Trivedi IM test confirmed homoscedasticity, indicating constant error variances. Furthermore, the variance inflation factor (VIF) values were below 1.1, ruling out multicollinearity among predictors. Together, these results validated the robustness and reliability of the model for hypothesis testing.

The Hausman specification test ($\chi^2 = 41.17$, $p < 0.05$) indicated that individual firm effects were correlated with the independent variables, justifying the use of the fixed effects model over the random effects model. The model demonstrated a good fit ($F = 11.88$, $p < 0.001$) with an R^2 (within) of 0.319, meaning that approximately 32% of the variations in firm financial performance among NSE-listed firms were explained by dividend payout, leverage, and control variables. The group effect test ($p = 0.0175$) further confirmed firm-specific heterogeneity, reinforcing the appropriateness of the fixed effects estimator for consistent parameter estimation.

Results from the fixed effects regression revealed that dividend per share (DPS) had a positive and statistically significant effect on firm financial performance ($\beta = 0.104$, $p < 0.001$). Therefore, H1 was accepted, indicating that higher dividend payouts are associated with improved firm profitability, consistent with dividend signaling theory. In contrast, financial leverage had an insignificant effect on financial performance ($\beta = 0.000$, $p = 0.967$), leading to the rejection of H2, implying that leverage did not significantly influence firm outcomes during the study period. Control variables such as firm age and size were also insignificant, suggesting that dividend policy decisions play a more crucial role in driving firm performance than structural characteristics like age or scale.

Table 4.1 Descriptive and correlation analysis

n=410	Mean	SD	FP	DPS	FL	FS	FA
FP	0.03	0.15	1				
DPS	2.19	21.23	.381**	1			
FL	1.72	1.63	0.008	0.015	1		
FS	6.88	1.00	-.121*	0.011	-0.038	1	
FA	49.41	22.64	0.009	-0.031	-0.059	-0.047	1

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

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

Source: (Field Data, 2025)

Key: FA – Firm Age; FP – Financial Performance; DPS – Dividend per Share; FL – Financial Leverage; FS – Firm Size (log of total assets)

Panel Unit Root Test

Panel unit root testing was conducted to evaluate the stationarity of the study variables before proceeding to regression analysis. Stationarity is a crucial prerequisite in panel data models as it ensures that the statistical properties of the variables such as mean, variance, and autocorrelation are constant over time (Baltagi, 2008). Non-stationary variables can result in spurious regression estimates, thereby compromising the reliability of the model's findings. The study employed the Fisher-type unit root test based on Phillips-Perron (PP) tests, which aggregates individual unit root test results using inverse chi-squared (P), inverse normal (Z), inverse logit t (L*), and modified inverse chi-squared (Pm) statistics.

The results across all test statistics and their corresponding p-values indicate that the variables financial performance (FP), dividend per share (DPS), firm size (FS), and firm age (FA) are stationary at the level. The p-values for all variables across the four Fisher-type statistics are well below the 0.05 threshold, allowing us to reject the null hypothesis of unit roots. Even firm age (FA), which had a slightly higher p-value under the inverse normal statistic ($p = 0.017$), still satisfies the criterion for stationarity under the other tests. These findings validate the suitability of the panel data for further econometric analysis without the need for differencing or transformation. They also support the argument made by Levin, Lin, and Chu (2002) that combining information from time series and cross-sections increases the power of unit root tests in panel datasets. Consequently, the results assure the robustness of subsequent regression estimations, as all variables meet the stationarity assumption essential for reliable inference in panel data econometrics.

Table 2 Unit root test Results

		Inverse chi-squared(60) P	Inverse normal Z	Inverse logit t(154) L*	Modified inv. chi-squared Pm
FP	Statistic	333.7179	-8.9974	-13.4662	19.6559
	p-value	0.000	0.000	0.000	0.000
FL	Statistic	660.1279	-14.9017	-28.0734	45.1442
	p-value	0.000	0.000	0.000	0.000
DPS	Statistic	463.6473	-12.4294	-18.9758	29.8016
	p-value	0.000	0.000	0.000	0.000
FS	Statistic	168.5384	-4.8783	-5.5327	6.7575
	p-value	0.000	0.000	0.000	0.000
FA	Statistic	133.3443	-2.1106	-3.1164	4.0093
	p-value	0.000	0.017	0.001	0.000

Source: (Field Data, 2025)

Hypothesis Testing

Diagnostic tests confirmed that the data met all key assumptions required for reliable regression analysis. The Skewness-Kurtosis, Jarque-Bera, Mardia's, and Doornik-Hansen tests all yielded p-values above 0.05, confirming that residuals were normally distributed and free from extreme skewness or kurtosis. The Wooldridge test showed no serial correlation, while White's test and the Cameron–Trivedi IM test confirmed homoscedasticity, indicating constant error variances. Furthermore, the variance inflation factor (VIF) values were below 1.1, ruling out multicollinearity among predictors. Together, these results validated the robustness and reliability of the model for hypothesis testing.

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Results from the fixed effects regression revealed that dividend per share (DPS) had a positive and statistically significant effect on firm financial performance ($\beta = 0.104$, $p < 0.001$). Therefore, H1 was accepted, indicating that higher dividend payouts are associated with improved firm profitability, consistent with dividend signaling theory. In contrast, financial leverage had an insignificant effect on financial performance ($\beta = 0.000$, $p = 0.967$), leading to the rejection of H2, implying that leverage did not significantly influence firm outcomes during the study period. Control variables such as firm age and size were also insignificant, suggesting that dividend policy decisions play a more crucial role in driving firm performance than structural characteristics like age or scale.

Table 3 Random Effects Model Regression Results

Random-effects GLS regression				Number of obs	=	410
Group variable: id				Number of zgroups	=	41
R-sq:	**Within**	0.319		Obs per group	min	4
	Between	0.304			avg	8.7
	Overall	0.343			max	10
				F(4, 312)	=	11.88
corr(u_i, x) 0 (assumed)				**Prob > chi2**	=	0.0000

FP	**Coef.**	**Std. Err.**	**Z**	**P>z**	**[95% Conf.**	**Interval]**
DPS	0.104	0.001	6.880	0.000	0.003	0.005
FL	0.000	0.000	-0.040	0.967	0.000	0.000
FA	-0.004	0.013	-0.340	0.733	-0.030	0.021
FS	0.000	0.001	-0.190	0.850	-0.001	0.001
_cons	0.101	0.097	1.040	0.301	-0.090	0.292

Hauman test	
chi2(6) (χ^2)	41.17
Prob>chi2	0.161

6. Discussion of Findings

The results of the fixed effects regression show that dividend per share has a statistically significant and positive effect on firm financial performance. The positive relationship implies that firms that consistently issue dividends are more likely to experience enhanced financial performance. This outcome supports the dividend signaling theory, which posits that dividend announcements send positive signals to investors about the firm's future profitability and stability (Lintner, 1956; Kilincarslan, 2021). Paying dividends can improve investor confidence, influence share prices, and improve a firm's market valuation, particularly in emerging markets like Kenya, where dividend income forms a crucial component of shareholder returns. Empirical evidence from the Nairobi Securities Exchange (NSE) also illustrates this relationship. Despite almost half of NSE-listed firms not paying dividends during their most recent financial year, those that did such as Safaricom and BAT Kenya outperformed their non-dividend-paying counterparts in terms of share price stability and investor confidence (Amwayi, 2021; Muiruki, 2021). Additionally, the special dividend payouts by the NSE itself, rising from Sh137.5 million to Sh364 million in 2021, signal strong investor engagement and improved firm outlook despite a decline in net income (Makwata & Mohamed, 2021; Echesa, 2021). These cases reflect how dividend-paying firms tend to signal financial resilience and discipline, thereby positively influencing investor perceptions and financial performance.

Research conducted in Nigeria by Mgbame and Ikhatua (2013) further supports this view. Their findings indicated that dividend per share, alongside earnings and book value per share, significantly impacted stock prices underscoring the relevance of DPS as a key indicator of firm performance. Similarly, Caroline Nduta (2016), in her study on firms listed at the NSE, reported a positive and significant relationship between DPS and firm financial performance, reinforcing the argument that generous dividend policies are positively associated with better financial outcomes. Theoretical support for these findings also comes from the agency theory, particularly as framed by Easterbrook (1984), who argued that dividends reduce the free cash flow available to managers, thus minimizing agency costs. By forcing firms to go to capital

markets to raise funds, dividend payouts invite greater scrutiny from analysts and institutional investors, improving corporate governance and financial discipline. Rozeff (2012) echoed this by noting that dividend payouts influence profitability, especially when measured through return on assets (ROA), while Holder, Langrehr, and Hexter (2008) observed that changes in dividends often coincide with expected changes in earnings per share, suggesting that dividend policy is an anticipatory measure of firm performance. The positive and statistically significant relationship between DPS and financial performance identified in this study is consistent with both theoretical expectations and empirical observations. It emphasizes the strategic role of dividend policy not only as a distribution mechanism but also as a tool for signaling, governance, and performance enhancement in the context of publicly listed firms in Kenya.

The finding that financial leverage had a statistically insignificant effect on firm financial performance, resulting in the failure to reject the null hypothesis (H2), suggests that capital structure, as measured by leverage, did not play a direct and meaningful role in influencing the performance of listed firms at the Nairobi Securities Exchange (NSE) during the study period. This aligns with several strands of both theoretical and empirical literature that offer varied and sometimes conflicting views on the relationship between leverage and performance. From a theoretical standpoint, the Pecking Order Theory (Mukras & Mule, 2015) posits that firms prefer internal financing (retained earnings) over external debt or equity, implying that leverage is not always an optimal choice but one driven by funding constraints. Hence, firms may use debt not as a performance-enhancing tool but as a last resort, explaining why leverage does not significantly correlate with better performance. Similarly, the foundational Modigliani and Miller (1958) proposition suggests that in perfect capital markets, a firm's value is independent of its capital structure, which supports the notion that leverage may not necessarily affect performance—particularly when tax shields, bankruptcy costs, and agency issues are neutralized.

Moreover, the Trade-Off Theory provides a more nuanced view by suggesting that firms aim to balance the benefits of debt (like tax shields) against its potential costs (such as financial distress). However, if firms in emerging markets like Kenya operate below optimal debt levels due to market imperfections, fear of default, or high interest rates, the benefits of leverage may not manifest in enhanced performance (Raza, 2014). This context-specific behavior can lead to the kind of insignificant leverage-performance relationship seen in this study. Empirically, findings from other researchers support the ambiguous effect of leverage. Jafari and Moghadam (2015) found a positive relationship between leverage and performance, indicating that debt financing can lead to profitability when well-managed. In contrast, Nanteza Aziidah (2017) reported a strong negative relationship between financial leverage and profitability among Kenyan energy firms, suggesting that excessive debt can burden firms with high interest obligations, thus reducing profits. She also found weak negative associations between leverage and both dividend payout ratios and liquidity management, implying that higher debt levels may constrain firms' operational and financial flexibility.

Similarly, Rehman (2013) observed a complex picture, with positive relationships between leverage and sales growth/return on assets, but a negative relationship with earnings per share, indicating that leverage may benefit some performance indicators while hurting others. Wald (2000) contributed further by noting that more profitable firms tend to avoid debt altogether, relying instead on retained earnings—a behavior consistent with the pecking order theory. His observation that firms issue equity during favorable market conditions to maintain low leverage

also explains why high profitability might not always coincide with high leverage ratios. Taken together, these theoretical and empirical perspectives offer possible explanations for the insignificant effect of financial leverage observed in the present study. It is likely that listed firms at the NSE maintain conservative capital structures due to risk aversion, regulatory constraints, or underdeveloped capital markets, which prevents leverage from exerting a significant influence on firm performance. This reinforces the idea that the leverage-performance relationship is context-dependent and may vary across sectors, firm sizes, and economic environments.

7. Conclusions

The study aimed to examine the influence of dividend per share and financial leverage on the financial performance of firms listed at the Nairobi Securities Exchange (NSE), and the findings yield several important insights. First, dividend per share emerged as a significant determinant of firm performance, indicating that companies with consistent and higher dividend payouts tend to achieve stronger financial outcomes. This reinforces the view that dividend policy not only rewards shareholders but also serves as a credible signal of profitability, financial soundness, and management's confidence in future earnings. Second, financial leverage exhibited no statistically significant effect on firm performance, implying that the level of debt in a firm's capital structure does not, by itself, enhance profitability. This suggests that while debt remains a useful financing tool, its benefits depend on effective management of associated risks and complementary financial strategies. Overall, the findings highlight that dividend decisions play a more pivotal role in shaping firm performance than leverage, emphasizing the need for listed firms to adopt dividend policies that balance shareholder expectations with long-term financial sustainability.

8. Recommendations of the Study

The study provides several practical and theoretical recommendations for firm managers, financial officers, policymakers, and scholars. For managers of listed firms at the NSE, the findings emphasize the importance of adopting consistent and transparent dividend policies. Since dividend per share was found to have a significant positive influence on financial performance, firms that regularly and predictably reward shareholders can enhance investor confidence, strengthen market perception, and improve firm valuation. Dividend policy should therefore be treated as a strategic financial tool that signals stability and profitability to investors. While financial leverage did not show a significant effect on performance, managers should nonetheless exercise caution in the use of debt financing. Over-reliance on debt can increase financial risk and erode profitability; therefore, firms should strive to maintain an optimal capital structure by balancing external borrowing with internally generated funds. An integrated financial strategy that harmonizes dividend decisions and capital structure management is recommended to ensure sustainable firm performance.

From a policy and regulatory perspective, the study provides valuable insights for institutions such as the CMA, the NSE, and other financial sector regulators. These bodies should encourage greater transparency and disclosure regarding firms' dividend policies and capital structure decisions. Clear reporting requirements would improve investor confidence and facilitate informed investment decisions. Regulators should also develop guidelines that promote prudent borrowing practices among listed firms to mitigate the risks associated with over-leverage and potential financial instability. Additionally, the CMA could consider offering incentives or recognition to firms that demonstrate sound dividend management and

responsible financing practices, thereby encouraging sustainable corporate growth across the capital market.

The study also offers important theoretical implications for corporate finance literature in emerging markets. The positive and significant relationship between dividend per share and financial performance supports the Dividend Signaling Theory, which posits that firms use dividend payments as a communication tool to convey financial health and managerial confidence to investors. This reinforces the idea that dividend policy remains a crucial component of firm value creation. Conversely, the insignificance of financial leverage on performance highlights the complex nature of capital structure decisions in emerging markets, where debt may not necessarily translate into higher profitability. These findings contribute to the broader understanding of how dividend and leverage dynamics shape firm performance, providing a strong foundation for future empirical studies exploring similar relationships in developing market contexts.

Limitations and Further Research

While this study provides valuable insights into the effect of dividend per share and financial leverage on the financial performance of firms listed at the Nairobi Securities Exchange (NSE), it is not without limitations. First, the analysis focused on only two aspects of dividend policy dividend per share and financial leverage thereby excluding other important dimensions such as dividend payout ratio, dividend yield, and the timing or stability of dividend payments. This limited scope may have constrained the understanding of the broader dynamics of dividend policy. Future research should therefore adopt a more comprehensive approach by including multiple measures of dividend policy to capture its full influence on firm performance. Second, the study was based exclusively on secondary data obtained from published financial reports and NSE records. Although secondary data provide reliability, consistency, and a long-term perspective, they may lack the contextual and behavioral insights that can be derived from firsthand experiences. Future studies should complement secondary data with primary data collection methods such as surveys or interviews with finance managers, investors, and corporate executives to provide richer and more nuanced interpretations of the observed relationships. Lastly, future researchers could extend the current analysis by incorporating sectoral or comparative studies across different industries or stock exchanges in the region to enhance generalizability. Employing advanced econometric techniques or longitudinal designs could also help uncover causal relationships and the dynamic interactions between dividend policy, capital structure, and firm performance over time.

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