# THE EFFECT OF LIQUIDITY, PROFITABILITY AND COMPANY SIZE ON DIVIDEND PAYOUT: EVIDENCE FROM FINANCIAL INSTITUTIONS LISTED IN DAR ES SALAAM STOCK EXCHANGE

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## *ABSTRACT*

*The focus of this study is to examine the effect of liquidity, profitability and company size on dividend payout of the financial firms listed in Dar es Salaam Stock Exchange (DSE). The study used explanatory research design. All financial companies listed at DSE during 2015-2019 were used. Data were analyzed by using descriptive statistics, correlation and regression analysis. The results show that there is a positive and significant relationship between dividend payout of financial companies and three independent variables namely; profitability, liquidity and company size. The study concludes that profitability, liquidity and company size are the main determinants of dividend payout for financial firms on DSE. The study recommends that prospective investors should invest in the financial companies which possess large profit, sufficient liquidity and the large companies. These companies have great chance of paying sufficient dividends.*

**Keywords:** *Dividend Payout, Liquidity, Profitability, Company Size, Dar es Salaam Stock Exchange.*

## INTRODUCTION
### Background Information
Globally, dividend payout is one of the most debated topics within corporate finance and many academics have been trying to find the missing pieces in the dividend puzzle for more than a half century (Olarewaju, 2018; Venkataraman & Venkatesan, 2018). Dividends is not a new phenomenon, payouts to shareholders have been a standard procedure for most companies in hundreds of years (Odawo and Ntoiti, 2015).

Dividend payout remains a controversial issue in Sub Sahara Africa (SSA), despite years of theoretical and empirical research (Bulla, 2013). Soonduret al., (2016) described dividend policy as one of the top ten most difficult unsolved problems in financial economics. Even after decades of investigations, scholars still disagree on the factors that influence dividend decisions of companies (Bushra & Mirza, 2015). According to Rehman and Takumi (2012) dividend payout is one of the most debated topics and a core theory of corporate finance which still keeps its prominent place.

Dividend payout policy entails deciding how much of an organization's earnings should be distributed out to shareholders, both ordinary and preference, in the form of dividends as return to their investment in the firm and what percentage should be retained or re-invested to finance the organization's plans for future investment (Musiega et al., 2013). The policy which an organization uses to make a decision on how much dividend to pay out to their shareholders is commonly referred to as the dividend policy (Baker et al., 2019). This policy guides a firm to decide how much of its profits it will distribute out to shareholders. Dividend payout policy is also viewed as a company's position on whether it will pay part of its profits as dividends or retain them. If the organization decides to pay

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1

dividends, the dividend policy will then describe whether or not dividends will be paid out on a regular basis (Bostanciet al., 2018).

Theoretically, there are various factors of firm characteristics that can influence the dividend payout of the financial firms (Setiawan and Rahmawati, 2020). These involve firm liquidity, profitability and company size (Silviana and Adi, 2020). Ahmed (2015) added that firm liquidity, profitability and company size are the major determinants of dividend payout of financial firms.

Previous studies, for example Olarewaju et al., (2019) examine bank-specific determinants of the dividend payout ratio of the banks. Another study conducted by Nadeemet al., (2018) examines the determinants of dividend policy of Pakistani banking sector from 2005 to 2015. Moreover, the study by Kosgei (2017) indicates that there is a significant relationship between investment decisions and dividend payout policies. Bostanciet al., (2018) assert that dividend payout and financial performance are significant and positively related. Ahmed (2015) reveals that the dividend payout ratios of the listed companies have a significant and positive correlation with liquidity but negative and insignificant correlation with profitability. On the other hand, Malik et al., (2013) assert that, company profitability, and size increase the probability of companies to pay dividend, whereas growth opportunities decrease the probability of paying dividends.

In the Tanzanian context, few empirical studies examined the effect of liquidity, profitability and company size on dividend payout of the financial firms listed in DSE. Also, it is not clear as to what firm characteristics determines the dividend payout of financial companies listed in DSE and what are the relationships between dividend determinant and dividend payout policy of the financial companies (Magambo, 2016). Kannadhasan et al., (2017) argue that dividend decision is one of the four decision areas in finance.  Dividend payout decisions are important because they determine what funds flow to investors and what funds are retained by the firm for investment. Moreover, they provide information to stakeholders concerning the company's performance (Bulla, 2013).

The aforementioned empirical studies indicate that the earlier studies show contradicting findings on the relationship between dividend payout and financial performance (liquidity, profitability and company size). Prior studies show contradicting findings on the link between the effects liquidity, profitability, company size and dividend payout. Moreover, the reviewed empirical studies show non- directional and inconclusive results. Furthermore, most of the previous studies were conducted in developed economies. For that case, this study was devoted to examine the effects of liquidity, profitability, company size on dividend payout of financial firms listed in DSE for the year 2015 and 2019.

## Literature Review, Hypothesis, and Conceptual Model
### Liquidity
The liquidity of a firm refers to its ability to meet short-term obligations using firm's assets that can be quickly converted to cash (Bushra and Mirza, 2015). Nadeem et al., (2018) described liquidity as the degree to which an asset or security can be quickly bought or sold in the market at a price reflecting its intrinsic value. According to Setiawan and Rahmawati (2020) the companies with higher liquidity are expected to pay higher dividends. From the foregoing examples of definitions, this study defines firms' liquidity as the ability to use its current assets to meet its current or short-term liabilities. This was measured as current assets divides by currents liability.

H1: Liquidity has a positive effect on dividend payout of the financial firms.

### Profitability
Profitability connotes the ability of a company to use its resources to generate revenues in excess of its expenses (Baker et al., 2019). Imran (2011) views profitability as the ability of a business to earn profits. Another study by Rizqia and Sumiati (2013) asserts that profitability of the firms means the management effectiveness measurement based on returns from sales and investment. According to Sukmawardini and Ardiansari (2018) profitability of the firms positively affecting dividend payout in the financial firms. Based on the synthesis of previous definitions, this study defines profitability as a situation in which an entity is generating a profit.

H2: Profitability has positive effects on dividend payout of the financial firms.

### Company Size

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2

Companies' size is one of the major factors affecting the dividend payout of the financial companies (Ajibade and Agi, 2020). Murekefu and Ouma (2012) believe that the company's size is related to profitability and assets of the company, as bigger and more profitable firms are more likely to pay dividends. Odawo and Ntoiti (2015) states that larger firms tend to be more diversified than smaller firms, therefore less prone to the risk of bankruptcy. Rizqia and Sumiati, (2013) believed that company size positively affects the dividend payout because it facilities profitability and stability, and smaller transaction costs when compared to small and new companies. Therefore, this study considers the company size as the total asset possessed by the company.

H2: Companies' size positively affects the dividend payout of the financial firms.

**Dividend Payout**
Kosgei (2017) defines dividend payout as the proportion of total profit paid out to ordinary shareholders as dividends. Hadi (2019) assert that dividend payout is obtained through calculating the dividend payout ratio. According to Silviana and Adi (2020) dividend payout ratio is the function of dividing dividend per share to its earnings per share. Large dividend payout in a period would reduce funds available for investment in subsequent periods and that would lead to the tendency of raising equity or debt in the next period to finance investment (Ajanthan, 2013). The study considers dividend payout as the amount of cash that a company sends to its shareholders in the form of dividends.

**Underpinning Theories**
Bird in the Hand Theory
This study used bird in the hand theory to explain dividend payout. The theory was developed by Gordon (1963) as a response to Modigliani and Miller's dividend irrelevance theory (Bhattacharya, 1979). The theory asserts that in a world of uncertainty and information asymmetry dividends are valued differently to capital gains of the company. Because of uncertainty of future cash flow, investors often tend to prefer dividends to retained earnings. Higher payout ratio reduces the required rate of return (cost of capital), and hence increase the value of the firm (Magambo, 2016). This is one of the major theories about dividend payout in an enterprise, used by earlier studies (Morni et al., 2018; Nambukara-Gamage & Peries, 2020).

**Liquidity Preference Theory**
The theory was used in this study to explain how liquidity of the firm can affects the dividend payout. Previous studies such as Asensio 2020; Oreiro et al., 2020; Missaglia and Sanchez (2020).
This theory was developed by John Maynard Keynes in 1936 (Oreiro et al., 2020). This theory proposed that an investor should demand a higher interest rate or premium on securities with long-term maturities that carry greater risk because, all other factors being equal, and investors prefer cash or other highly liquid holdings (Asensio 2020).

**Dividend Irrelevance Theory**
This theory was introduced by Miller and Modigliani in 1961 (Richardson et al., 1986). The theory suggests that the issuing of dividends does not increase a company's potential profitability or its stock price. The value of a company is not determined by dividend payments. Further, they establish that in a perfect capital market optimal investment decisions by a firm are independent of how such decisions financed (Jain and Rastogi, 2020). Previous studies such as Priya and Mohanasundari 2016; Jain and Rastogi, 2020 used this theory to establish the effect of profitability on dividend payout.

**Empirical Evidence**
Liquidity and Dividend Payout
Ahmed (2015) investigates the impact of liquidity and profitability on the dividend payout policy in the UAE banking sector. The study analyzes the data of 18 out of the 24 UAE national banks over the period 2005-2012. The correlation analysis and regression analysis are conducted to analyze the data. The results show that the dividend payout ratio has a significant and positive correlation with liquidity but negative and insignificant correlation with profitability. In a similar undertaking the study by Odawo and Ntoiti (2015) intended to examine the effect of liquidity on dividend payout. The study used a descriptive research design. The results shows that there liquidity was negatively and significantly related to dividend payout while profitability was positively and significantly related to dividend payout. The study recommended companies to maintain an optimal level of market liquidity as market liquidity has a negative influence on dividend payout.

Malik et al., (2013) aimed to investigate determinants of dividend policy of firms. The study used panel data of 100 financial and non-financial firms over the period from 2007 to 2009. The results indicate that liquidity, leverage,

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3

earning per share, and size are positively related to dividend, whereas growth and profitability are found to be insignificant determinant of dividend policy. The results from probit model estimation reveal that earning per share, company profitability, and size increase the probability of companies to pay dividend, whereas growth opportunities decrease the probability of paying dividends.

**Profitability and Dividend Payout**
The relationship between profitability and dividend payout policy was studied by Ajanthan (2013). Regression and correlation analysis were carried out to establish the relationship between dividend payout and firm profitability in Colombo Stock Exchange (CSE). The findings indicated that dividend payout was a crucial factor affecting firm performance. Their relationship was also strong and positive. This therefore showed that dividend policy was relevant. The study concluded that managers should pay attention and devote adequate time in designing a dividend policy that will enhance firm profitability and therefore shareholder value. In Tanzania, Magambo (2016) conducted the study on determinants of dividend policy for companies listed at DSE. The linear relationship between the dependent and the independent variables were determined. Multiple regressions were used for the regression analysis and inferences were drawn based on the analysis. The study concludes that the dividend policies of companies listed at the DSE is determined by the amount of profit after tax, liquidity and shareholders' fund.

Nadeem et al., (2018) examines the determinants of dividend policy of Pakistani banking sector from 2005 to 2015. The study adopted panel data techniques. The study found that profitability, investment opportunities and last year dividend have significant positive effect on dividend payouts of Pakistani banks whereas growth and loan deposit ratio have significant negative influence. Also the findings show that last year dividend paid is the most significant factor affecting the dividend payout ratio of the banks. Moreover, results reveal that there is no significant difference in the factors affecting dividend payout ratio before and after the financial crisis.

**Company Size and Dividend Payout**
The relationship between company size and dividend payout policy was established by Redding (2017), the study presents a model of large institutional and small individual investors choosing stocks. Dividend policy of firms is determined by the preferences of the resulting stockholders. Large investors choose to invest in large corporations because it lowers their transaction costs. Since these institutions prefer dividends, the large corporations choose to pay dividends, while the small corporations, owned by individuals, do not. The results show that firm size and liquidity explain the decision of whether to pay dividends well, whereas existing informational explanations (such as monitoring and signaling) explain the level of dividends well. On the other hand Eddy and Seifert (2016) examine the association between firm size and abnormal returns from the announcement of large dividend increases. Dividend announcements are examined only where there are no contemporaneous earnings announcements.

Venkataraman and Venkatesan (2018) conducted the study on empirical analysis of the determinants of dividend payouts of Indian banking. The study used secondary data, which were extracted from the annual reports of the banks. Five banks were selected for a period of 12 years, the selection of banks was based on data availability so as to frame the array for panel analysis and provide optimal solutions. The study adopted multiple regressions. The return on assets and the size of the firm in terms of assets and the previous period debt/equity were observed as key variables influencing the dividend payouts. The results shows that there is a positive relationship between profitability, liquidity, company's' size and dividend payouts.

**Synthesis and the Research Gap**
The major problem identified in earlier studies is the contradicting findings on the link between effects of liquidity, profitability, company size and dividend payout. The reviewed empirical studies reveal non- directional and inconclusive results. This is because there is no single determinant which is found to be positive or negative impact on dividend payout ratio. Moreover, most of the previous studies were conducted in developed economies. Therefore, this study aims to establish the effects of liquidity, profitability, company size on dividend payout of financial firms listed in DSE for the year 2015 and 2019. The study was conducted in this period because most of the reforms at DSE were done under this period (Marobhe and Hembe, 2019).

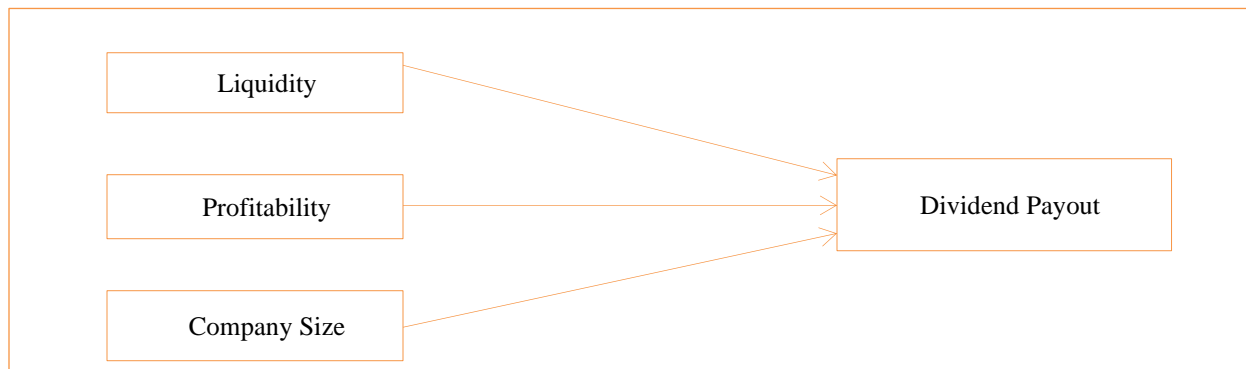Based literature review the conceptual model of study can be described as follows.

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4

*Figure 1: Conceptual Framework*

**Methodology**
**Research Design**
The study used explanatory research design. The aim of an explanatory research design is to establish the cause and effect relationship (Rizqia and Sumiati, 2013). Thus, the current study employs explanatory research design to establish the effects of liquidity, profitability and company size on dividend payout of the financial firms.

**Sources of Data**
The study used audited financial statement of all financial companies listed at Dar es Salaam Stock Exchange (DSE) for the year 2015-2019. The study was conducted in this period because most of the reforms at DSE were done under this period (Marobhe and Hembe, 2019). Therefore, this study used 13 financial firms for the period of five years. Consequently, the study involved 65 observations or data points. As recommended by Bushra and Mirza (2015) quantitative study should involve more than 30 observations.

**Population and Sample**
The population of the study involved all financial companies listed at DSE during 2015-2019. This was census research or saturated sampling as recommended by Ajanthan (2013). Therefore, all financial companies were sampled because population size was relatively small. The amount saturated samples obtained were 13 financial firms.

**Measurement of Variables**
Dividend Payout
Dividend payout was measured by using dividend payout ratio as suggested by Kosgei (2017); Silviana and Adi (2020). The dividend payout ratio was obtained by dividing dividend per share with the earnings per share (Eddy and Seifert, 2016).

**Profitability**
Profitability of the financial companies was measured by using Return on Equity (ROE) as proposed by Rizqia and Sumiati (2013); Sukmawardini and Ardiansari (2018) and Imran (2011). ROE was obtained by dividing net income with the total equity of the company (Baker et al., 2019).

**Liquidity**
Liquidity of the financial company was measured by current ratio following the study by Nadeem et al., (2018); Bushra and Mirza (2015); and Setiawan and Rahmawati (2020). Current ratio was obtained by dividing current assets with currents liability of the financial company (Bushra and Mirza, 2015).

**Company Size**
Company size presents the level of company development within a business (Ajibade and Agi, 2020; Murekefu and Ouma, 2012). This was measured by calculating the natural logarithm of total assets as proposed by Rizqia and Sumiati, (2013) and Odawo and Ntoiti (2015).

**Table 1: Variables and Measurement**

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5

| Variable | Description | Measurement of the Variables |
|---|---|---|
| Dividend Payout | Dividend payout ratio | Dividend per share / earnings per share |
| Profitability | ROE | Net income divided by the total equity |
| Liquidity | Liquidity or current ratio | Current assets/ currents liability |
| Company Size | Company development within business | The natural logarithm of total assets |

## 3.5 Data Analysis

The collected data were coded in Statistical Package for Social Scientists (SPSS). The study conducted preliminary analysis like, autocorrelation test, normality assumptions, test of multi-collinearity and homoscedasticity test to ensure the validity of the findings. This study employed correlation and regression techniques for inferential analysis. This was adopted from Hadi (2019) and Ajanthan (2013). The study used correlation to establish the relationship between the variables. Furthermore, multiple regression analysis was conducted to assess the relative predictive power of the independent variables on the dependent variable.

## Results

### Autocorrelation Test

The study tested for existence of autocorrelation between variables. Kamboj and Gupta, (2020) defined autocorrelation as the correlation which exist between the residue terms of the two observations. This study used Durbin-Watson to test the presence of autocorrelation. According to Kamboj and Gupta (2020) Durbin Watson test is one of the most effective tests for detecting the presence of autocorrelation. Normally, Durbin-Watson provides the values that range from 0 to 4. Positive autocorrelation is presented by values near 0, whereas negative autocorrelation is presented by values near 4. Moreover, autocorrelation is not present in case the value ranging from 1.5 to 2.5.

## Table 2: Model Summary for Durbin-Watson

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
|---|---|---|---|---|---|
| 1 | .721[a] | .519 | .409 | 0.00994 | 2.115 |

a. Predictors: (Constant), Profitability, Liquidity, Company Size

b. Dependent Variable: Dividend Payout

**Source:** Estimation Using SPSS

Table 2 shows model summary for Durbin-Watson, the results show that Durbin-Watson value obtained in the model was 2.115. These findings imply that there is no autocorrelation. Therefore, this indicates the accuracy of the regression models used in this study.

### Test of Normality

The study conducted normality test in order to examine normality of data used. Therefore, the study employed Kolmogorov Smirnov and Shapiro–Wilk tests to investigate normality of data used. Hesamian and Akbari (2020) affirm that the best test for investigating normality of data is through Kolmogorov Smirnov and Shapiro–Wilk tests. The process of normality test involves estimating the probability that the adopted sample was selected from the normal distributed population.

## Table 3: Tests of Normality

| | Kolmogorov-Smirnov[a] | | | Shapiro-Wilk | | |
|---|---|---|---|---|---|---|
| | Statistic | df | Sig. | Statistic | df | Sig. |
| Dividend Payout | .195 | 65 | .053 | .758 | 65 | .002 |
| Profitability | .260 | 65 | .067 | .821 | 65 | .003 |
| Liquidity | .250 | 65 | .072 | .823 | 65 | .000 |
| Company Size | .240 | 65 | .054 | .837 | 65 | .002 |

a. Lilliefors Significance Correction

**Source:** Estimation Using SPSS

Results in Table 3 show both statistical and significance values of Kolmogorov Smirnov and Shapiro–Wilk. The results show that the dependent variable has a value of 1.195 with its corresponding significance value of 0. 053.

Since the significance value of dependent variable is more than 0.05, therefore the null hypothesis for non-normal distribution is rejected.

Also, the results show that profitability has the value of 0.260 with a corresponding significance of 0.067 which is equally more than 0.05. Therefore, the null hypothesis was rejected; this indicates that the values from the profitability are normally distributed. Moreover, the results show that both significance values for liquidity and company size are more than 0.05. Therefore, the null hypothesis was rejected; this indicates that the values from both dependent and independent variables are normally distributed.

### Test of Multicollinearity

The study conducted multicollinearity test to examine the existence of intercorrelations or inter-associations between independent variables namely; profitability, liquidity and company size. According to Kamboj and Gupta (2020) multicollinearity occurs when independent variables have high intercorrelations or inter-associations. Therefore, the existence of multicollinearity is not accepted because the used data may not be reliable. The study used tolerance and Variance Inflation Factor (VIF) to examine the existence of multicollinearity. Kamboj and Gupta (2020) assert that the best way to test for multicollinearity requires the use of tolerance and Variance Inflation Factor (VIF). For multicollinearity problem to exist value of tolerance should be less than 0.2 or 0.1. Also VIF should be 10 and above.

**Table 4: Multicollinearity Test**

| Model | Collinearity Statistics | |
|---|---|---|
| | Tolerance | VIF |
| Profitability | .952 | 1.050 |
| Liquidity | .949 | 1.033 |
| Company Size | .944 | 1.023 |

Source: Estimation Using SPSS

The findings in Table 4 show collinearity statistics. The findings show that, the values of tolerance and VIF for profitability were 0.952 and 1.050 respectively. Moreover, the values of tolerance and VIF for liquidity were 0.949 and 1.033 respectively. Furthermore, the values of tolerance and VIF for company size were 0.944 and 1.023 respectively. The results imply that there is no multicollinearity problem. Therefore, the data from all independent variables used in this study were reliable and valid

### Linearity Test

This study used correlation analysis to test for linearity assumption. The findings clearly indicate that the dividend payout has the highest correlation with the profitability and liquidity and company size. The findings in Table 5 show that the correlation between dividend payout and profitability (r= 0. 604, p <0.01), and liquidity (r = 0. 554, p < 0.01), and company size (r = 0. 674, p <0 .01). The findings indicate strong correlation exist. Therefore, this implies that linearity assumption was not violated.

**Table 5: Correlation**

| | | Dividend Payout | Profitability | Liquidity | Company Size |
|---|---|---|---|---|---|
| Dividend Payout | Pearson Correlation | 1 | .099 | .388[*] | .514[**] |
| | Sig. (2-tailed) | | .604 | .554 | .674 |
| | N | 65 | 65 | 65 | 65 |
| Profitability | Pearson Correlation | .099 | 1 | .032 | .203 |
| | Sig. (2-tailed) | .604 | | .865 | .281 |
| | N | 65 | 65 | 65 | 65 |
| Liquidity | Pearson Correlation | .388[*] | .032 | 1 | .192 |
| | Sig. (2-tailed) | .554 | .865 | | .311 |
| | N | 65 | 65 | 65 | 65 |
| Company Size | Pearson Correlation | .514[**] | .203 | .192 | 1 |
| | Sig. (2-tailed) | .674 | .281 | .311 | |
| | N | 65 | 65 | 65 | 65 |

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

Source: Estimation Using SPSS

## Homoscedasticity Test

The study adopted Breusch Pagan and Koenker to tests for Heteroscedasticity. The results show that the data set failed the test for homoscedasticity for both Breusch Pagan ($\chi 2 = 16.99$, $\rho < 0.004$) and Koenker ($\chi 2 = 7.89$, $\rho = 0.03$). The findings indicate the presence of heteroscedasticity problem in the data set because all $\rho$ values for Breusch Pagan and Koenker tests were less than 0.05.

Ahmad Daryanto's plug was used to rectify the heteroscedasticity problem in the data set as suggested by Ajanthan (2013). The detected heteroscedasticity problem was fixed with the help Ahmad Daryanto's plug-in for SPSS for creating Heteroscedasticity robust standard errors. Thus, this study used regression analysis after rectify heteroscedasticity problem.

## Descriptive Analysis

Results in Table 6 present descriptive statistics of the variables used for the regression analysis. In the model used, profitability, liquidity and company size of the financial firms are independent variables of the study while dividend payout of the financial firms is the dependent variable for the regression equation.

**Where:**

Dividend payout = Dividend payout ratio, obtained by dividing dividend per share with earnings per share of the financial company.

Profitability = ROE obtained by dividing net income with the total equity of the company

Liquidity = Current ratio obtained by dividing current assets with currents liability of the financial company.

Company size = Total assets obtained by the natural logarithm of total assets

**Table 6: Analysis of the Descriptive Statistics**

|                     | N  | Minimum | Maximum | Mean  | Std. Deviation |
|---------------------|----|---------|---------|-------|----------------|
| Profitability       | 65 | .00     | .81     | .4005 | .29285         |
| Liquidity           | 65 | .00     | .89     | .3870 | .21494         |
| Company Size        | 65 | .10     | .85     | .3350 | .22193         |
| Dividend Payout     | 65 | .00     | .87     | .3680 | .22213         |
| Valid N (listwise)  | 65 |         |         |       |                |

Source: Estimation Using SPSS

Results in Table 6 indicate that, the dataset is a balanced panel data with a total of 65 observations which were taken from 13 financial companies listed in DSE and each company was observed for a period of 5 years. The findings indicate that the mean dividend payout for all financial companies at DSE is 0.3680, mean profitability is 0.4005, mean liquidity is 0.3870. Moreover, the study found that the mean company size is 0.3350. Moreover, the standard deviation for profitability, liquidity, company size and dividend payout are 0.29285, 0.21494, 0.22193 and 0.22213 respectively.

## Multiple Regression Model

The study conducted linear regression analysis so as to determine the relationship between dependent variables which is dividend payout and the three independent variables namely: profitability, liquidity and company size of the financial firms listed DSE. The regression equation was

$$Y = \beta_0 + \beta_1 P + \beta_2 L + \beta_3 Cs + \varepsilon_i \ldots\ldots\ldots(1)$$

Where

Y measure dividend payout of the financial firms

$\beta_0$ Is a constant term; $\beta_1, \beta_2 \ldots, \beta_3$ are the coefficients of variables measuring the probability likelihood of dividend payout and P,L,and Cs are the independent variables of the study and $\varepsilon_i$ is error term.

**Table 7: Model Summary**

| Model | R     | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------|----------|-------------------|----------------------------|
| 1     | .721[a] | .519     | .409              | 0.00994                    |

a. Predictors: (Constant), Profitability, Liquidity, Company Size

b. Dependent Variable: Dividend Payout

The results in Table 7 show the R square. The R Square is called the coefficient of determination and tells us how the dividend payout varied with profitability of the financial firm, liquidity and company size of the financial firm. The three independent variables that were studied explain 72.1% of the determinants of dividend payout for financial firms listed in DSE as represented by R Squared (Coefficient of determinant). This therefore means that other determinants not studied in this research contribute 27.9% of the determinants of dividend payout policy for financial firms.

**Table 8: Coefficients of Determination Results**

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|
| | B | Std. Error | Beta | | |
| (Constant) | .096 | .092 | | 1.047 | .000 |
| Profitability | .303 | .122 | .004 | .025 | .002 |
| Liquidity | .310 | .166 | .300 | 1.865 | .004 |
| Company Size | .458 | .164 | .457 | 2.781 | .000 |
| a. Dependent Variable: Dividend Payout | | | | | |

If p-value>0.05 we accept null hypothesis and reject alternative hypothesis
If p-value <0.05 we accept alternative hypothesis and reject null hypothesis

The established regression equation was

$$Y=\beta_0+\beta_1 P+\beta_2 L+\beta_3 Cs+\varepsilon_i \dots\dots\dots(1)$$

$$Y=0.096+0.303P+0.310L+0.458Cs+\varepsilon_i \dots\dots\dots(2)$$

The regression equation above has established that by holding all determinants (profitability, liquidity and company size of the financial firm) constant, dividend payout of the financial firms will be 0.096. Moreover, the findings show that taking all other independent variables at zero, a unit increases in profit of the financial companies will lead to a 0.303 increases in the scores of dividend payout in financial companies. This is consistent to the study by Ajanthan 2013; Magambo, 2016 and Nadeem et al., (2018). The study further found that, profit of the companies have significant positive effect on dividend payouts. Profitability of the firm was a crucial factor affecting dividend payout. This therefore showed that dividend policy was relevant. This is contrary to dividend irrelevance theory by Miller and Modigliani in 1961. The theory believes that issuing of dividends does not increase a company's potential profitability or its stock price. The value of a company is not determined by dividend payments

Also the study found that a unit increase in liquidity of the financial firm will lead to 0.310 increases in dividend payout. This relates to the study by Ahmed (2015) which asserts that dividend payout ratio has a significant and positive correlation with liquidity. This relates to liquidity preference theory created by John Maynard Keynes during 1936. The theory believes that an investor should demand a higher interest rate or premium on securities with long-term maturities that carry greater risk because, all other factors being equal, investors prefer cash or other highly liquid holdings (Asensio 2020).

Furthermore, the study found that a unit increase in company size lead to 0.458 increases in the dividend payout. This is similar to the study by Venkataraman and Venkatesan (2018) the study affirms that there is positive relationship between company's' size and dividend payouts. Redding (2017), asserts that large investors choose to invest in large corporations because it lowers their transaction costs. Since these institutions prefer dividends, the large corporations choose to pay dividends, while the small corporations, owned by individuals, do not

### Conclusion and Recommendations

The study concludes that profitability, liquidity and company size are the main determinants of dividend payout for financial firms on DSE. These have positive and significant effect on dividend payout of the financial firms. When the firm has made sufficient profit, normally pay sufficient dividends. Profitable firms are likely to pay dividend as compared to non-profitable firms. Moreover, the study concludes that liquidity of the financial firm is one of the

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9

determinants of divided payout. The increase in liquidity of the financial firm results to increases in dividend payout in the financial firms listed at DSE. Furthermore, the study concludes that company size is another determinant of dividend payout in financial companies at DSE. Large companies are in good position to provide high dividend.

## Recommendations
For Prospective Investors
Prospective investors should invest in the financial companies which possess large profit, sufficient liquidity and the large companies. These companies have great chance of paying sufficient dividends.

## For the Financial Firms
Managers of  financial firms should aim at having high profit, sufficient liquidity, and investing in risk business which to the opinion of the management would yield high profits this will make the firm to have high dividend payout which will improve investors' confidence in the firm hence value of the firm.

## Implication of the Study
Addressing the research objectives makes several contributions in terms of widening the theoretical understanding of the determinants of dividend payout for financial firms. The greatest contribution is to show the determinants of dividend payout of the financial firms listed in Dar es Salaam Stock Exchange (DSE) between 2015 and 2019.

Theoretically the findings of the present study have expanded the understanding of the determinants of dividend payout for financial firms. The broadened understanding would be as useful in put for future studies.

In addition, in terms of the managerial implication, the empirical results provide valid evidence that there is positive relationship between dividend payout in financial companies and three independent variables namely profitability, liquidity and company size. Thus, management should work hard to improve profitability, liquidity and company size of the company.
As far as the policy implication is approached, the study findings revealed profitability, liquidity and company size of the financial companies listed in DSE facilities to increase dividend payout. Therefore, it is necessary to develop and implement policies that create enabling environment for these companies to improve their profits, liquidity and company size.

## Areas for Further Studies
The researcher recommends additional research to be conducted to test and analyze other determinants which were not considered like: Previous dividend and tax on dividend payout of financial firms. Determining dividend payout behaviour across sectors of firms listed on DSE. Determining investors view on dividend payout by investigating portfolios of various investors for example demography so as to unearth the determinants of dividend payout. Also use other methods of analysis could be applied in future research to certify determinants of dividend payout.

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10

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11

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12