

Abstract

Dividend decision is a critical finance function since it involves determining the amount distributed to shareholders as earnings or the amount to reinvest internally. The determination of dividend pay-out is influenced by the liquidity position of the firm but the extent to which liquidity affects the dividend pay-out still remains a puzzle since most empirical studies conducted have reported inconsistent results and no universally accepted explanation for companies with adequate liquidity have observed uniform dividend payment behaviour. It is in this context that the study was set out to determine the effect of liquidity on dividend pay-out of a firm. The objectives of the study were; to determine the effect of profitability, cash flows and working capital on the firms' dividend pay-out decisions. The study employed causal comparative research design on a target population of 61 firms listed at the NSE. Purposive sampling was used to select 30 firms which consistently paid dividends from the year 2008 to 2012. Data analysis was done using descriptive and inferential statistics. The study revealed that profitability plays a major role in dividend pay-out because of the higher coefficient as compared to cash flows and working capital and consequently the companies which posted higher profits translated this to higher dividends paid out to investors. The study recommends that firms should ensure that profits are stable, cash flows freely flow into the firm and working capital is efficiently managed so as to increase the firms' dividend pay-out. The results would provide information to managers to determine an optimal dividend pay-out that would maximise the company's stock price and thus lead to maximization of shareholders wealth. The study also forms a basis for further research and adds knowledge to the existing body.