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Abstract

Dividend policy is considered to be a key decision that influences wealth maximization. There are however, conflicting results on how dividend policy affects firm worth and this debate has been raging over decades. The objective of this paper was therefore, to examine how the link between dividend policy and value of firms listed at the Nairobi Securities Exchange is moderated by liquidity. Balanced panel data was obtained from 52 firms listed at the NSE between 2011 and 2020. Firm value was measured using Tobin's Q (ratio of market value to book value). The proxy for dividend policy was a composite of interim dividend ratio (frequency of dividend payment) and dividend payout ratio (quantum of dividend). Liquidity was measured using operating cash flow ratio. Correlation and general least squares (GLS) fixed-effect model were used to analyze the data. The study established that liquidity moderated the link between dividend policy and corporate value. The study contributes to knowledge by proving that the association between dividend policy and firm value is moderated by liquidity. The findings, thus, imply that managers should pay dividends from the free cash flow to mitigate agency costs. Minimal agency costs enhance firm value.

Keywords: *Dividend Policy, Dividend Relevance, Dividend Irrelevance, Liquidity*

Introduction

Dividend policy is a central consideration in wealth creation. Financial theorem sets out wealth creation as the sole reason for existence of a firm (Jensen, 2001; Baker & Weigand, 2015). Dividend received today is better than capital appreciation in the future which is subject to risk. Dividend is not payable from capital and therefore, its declaration can only imply that the firm engaged in some rewarding undertaking and that the profits are irreversible and sustainable. To cut the funds that can be overinvested by insiders, dividend is distributed. Once dividend is paid, debt which is the next cheapest source of income according to pecking order theory by Donaldson (1961), is raised. Debt holders will continuously monitor insiders' behavior making them more objective thereby, making the firm more valuable (Ahmad, Alrjoub, & Alrabba, 2018).

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Researchers in corporate finance, however, have continued to report conflicting findings on the effect of dividend payout-policy on corporation worth and a conclusion on this topic is yet to be reached. Studies on the moderating effect of liquidity in the relationship between dividend payout-policy is also limited. Because of the said gaps, this study set out to determine how the interrelationship between dividend policy and firm value is moderated by liquidity. The study modelled firm value to be the dependent variable, dividend policy to be the independent variable and liquidity to be the moderating variable.

This study is anchored on agency theory and further supported by; signaling theory, free cash flow hypothesis and clientele effect hypothesis. Agency theory by Jensen and Meckling (1976) presents that dividends resolve the information asymmetry problem between stockholders and insiders by signifying the true worth of a corporation. Agency theory further states that dividend cuts the finances that can be overinvested by insiders and thereafter, necessitates debt. Debtholders employ various means to ensure that insiders remain objective in order to fulfil debt covenants. Signaling hypothesis by Lintner (1956) augments agency theory by declaring that dividend contains information that could be used to estimate firm worth. Free cash flow hypothesis by Easterbrook (1984) argues that the free cash flow should be dispensed with before they are overinvested. Projects should be funded by debt which is beneficial to the firm. Clientele effect hypothesis by Miller and Modigliani (1961) states that investors select their portfolios based on their preferences. They form clienteles and firms seek to satisfy the needs of these clienteles. Clienteles like retirees are attracted to corporates that distribute large and regular dividends while young investors prefer non-paying stocks. On the contrary, dividend irrelevance theory by Miller and Modigliani (1961) opposes distribution of dividends. They argued that the worth of an entity can only be enhanced by returns from profitable ventures and not how profits are distributed.

On the global arena, most studies were conducted in developed countries which are matured markets with well-established regulatory frameworks. Even in the said matured and established markets, dividend policy still remains a debatable topic. Ahmad et al. (2018) reported that dividends reacts positively with stock prices. Baker (2009) opposed this position and concluded that dividends cannot predict the value of an entity. Juhandi, Fahlevi, Abdi and Naviantoro (2019) also did not find any correlations between dividend payout-policy and corporate value. Baker and Weigand (2015) reported that dividend grows firm worth but most institutions prefer share repurchase as form of distribution of earnings and cash dividends are on the decline. In Kenya, various studies were conducted like Kimunduu (2018) and Aduda and Kimathi (2011)

but conceptualization and measurement of the constructs greatly varied. Most studies focused on the determinants of dividend payout-policy and the commonly used measurement of dividend policy was quantum. Studies that tested the moderating effect of liquidity on the relationship between dividend policy and firm worth were limited. The above knowledge gaps necessitated this study. This study therefore, evaluated how the relationship between dividend payout-policy and value of corporations trading on the Nairobi Securities Exchange (NSE) between 2011 and 2020 was moderated by liquidity.

Research Problem

Dividend payout-policy is a major consideration in determination of firm worth. Its effect on corporate value however, remains inconclusive (Baker, Dewasiri, Premaratne & Koralalage, 2020). Managers have a tendency of investing excess cash flow sub-optimally, causing firm value to decline. Payment of dividends from internally generated finances cuts these funds. The firm subsequently, secures debt to finance viable projects. Debtholders will evaluate and continuously monitor firm performance to ensure managers align with the set objectives (Michaely, Rossi & Weber, 2017). Dividends also indicate that an entity made profits and will continue to do well. Moreover, dividend paying stocks are more marketable since investors dislike the risk associated with capital growth. Jakata and Nyamugure (2014), amongst other scholars however, found no reaction between dividend payout-policy and firm worth. They argued that firm value is enhanced by its investment activities and not the manner in which the earnings are distributed. More specifically, the moderating effect of liquidity in the relationship between dividend policy and firm worth also remains debatable. Several scholars have reported that high liquidity is desirable since it enables the firm to undertake its viable projects. On the contrary, other scholars are of the opinion that free cash flow is susceptible to overinvestment.

The conflicting results could be as a result of difference in study context, measurements of the constructs, conceptualization of the study variables, sample selection and varied time frames. At the NSE, Aduda and Kimathi (2011) reported that most corporations follow a stable and predictable dividend policy. Upholding the signaling hypothesis, they noticed that firms at the NSE maintained dividend at a certain level and increased dividend only when the growth in returns is believed to be permanent and sustainable. Data from the NSE between 2011 and 2020 shows a trend where a small number of firms announce interim dividends with the majority focusing on final dividends. Dividend affects firm value and the most preferred mode of dividend distribution is cash (Ouma & Murekefu, 2012). A number of companies such as Deacons, Athi River Mining Company and Mumias Sugar were put under statutory management, receivership or

liquidation. The aforementioned entities recorded poor liquidity ratios and did not distributed dividends over the periods preceding their value erosion implying that there could be an interrelationship between dividends and firm worth.

Empirical studies on how the link between dividend policy and firm worth is moderated by liquidity are still inconclusive. Badu (2013) found a reaction between dividends and FCF while Gill, Biger and Tibrewala (2010) did not find any relationship. Studies incorporating liquidity as the moderator in the relationship between dividend payout-policy and firm value are limited. Past studies like Kirkham (2012) used current ratio as the indicator for liquidity. Current ratio is computed using items like inventory that do not constitute free cash flow. Conceptualization of the study variables also greatly varied. Most studies regressed FCF against firm value as one of the independent variables. This study assessed how liquidity moderated the association between dividend payout and corporation worth at the NSE using OCF as the indicator for liquidity.

The measurement of the constructs varied. For instance, Juhandi et al. (2019) used price to book value to determine firm value and focused on 31 manufacturing firms making generalization of the findings problematic. This study focused on all firms listed in Kenya. Ouma and Murekefu (2012) adopted cash dividends as the indicator for dividend policy while Luvembe, Njangiru and Mungami (2014) applied DPR. A more comprehensive composite score of IR and DPR was used as the proxy for payout policy in this study. This study accordingly, sought to establish if the relationship between dividend policy and the value of companies quoted on the NSE is moderated by liquidity.

Objective of the study

The purpose of this study was to evaluate the effect of liquidity on the relationship between dividend payout-policy and value of firms listed at the Nairobi Securities Exchange.

Literature Review

This segment contains a review of the theoretical foundation of this study, dividend policies in practice and empirical literature.

Theories of Dividend policy

Agency Theory: Agency theorem by Jensen and Meckling (1976) presents that imperfect contracting between proprietors and insiders causes information asymmetry. Insiders overinvest in the following ways; shirking, allocating themselves perquisites, varying delivery or performance scope and timelines and differential risk attitude between management and investors (Lambert, 2001). Investors incur costs to align the aforementioned variations in the form of agency costs which include bonding and monitoring costs. Dividends signal that the entity made profits and the future is promising. It also cuts the free cash flow (FCF) and subsequently, creates debt. Debt holders will monitor insiders' actions and compel them to be more objective. Dividends therefore minimize agency costs and grow entity value. This research was primarily founded on agency theory.

Signaling Theory: Signaling theory was established by Lintner (1956). The theory is pegged on information asymmetry between proprietors and insiders. Information asymmetry causes a biased estimation of the true intrinsic value of stocks. Dividend is not payable from capital so it can only imply that the institution recorded profits and the profit levels are irreversible and sustainable. In other words, dividend can be used to infer firm worth. Its announcement therefore, should react with stock prices positively. Baskin and Miranti (1997) concurred with this hypothesis by stating that stockholders predict company prosperity using dividends.

Bird in hand hypothesis: Bird in hand hypothesis (BIHH) was first established by Lintner 1962). It stems from the English saying that "a bird in hand is worth two in the bush" construed as dividend today is more valuable than capital appreciation. Dividend paying securities therefore trade at a premium and are more valuable. The discounting rate for dividends is lower compared to the one for capital appreciation which is adjusted to risk inherent with future returns. Fisher (1961) argued that dividend paying entities are more valuable than their counterparts who retain their incomes to finance rewarding projects.

Clientele effect of Dividend hypothesis: Miller and Modigliani (1961) were the first proponents of this hypothesis. They explained how certain clienteles dictate the formulation of dividend policies. Stockholders select their portfolios depending on their preferences. The need could be a dividend paying or a non-paying asset. In most tax jurisdictions, the taxation rate for capital growth is lower than for dividends. Clienteles seeking to save on taxation and transactional costs will select capital appreciation. Similarly younger investors with regular earnings will opt for capital appreciation contrary to retirees who need high

and stable returns. Institutional investors could be attracted to high dividends since they have larger tax shields. The demand for certain securities that meet the needs of a particular segment of clienteles is likely to go up causing appreciation in firm value. Miller and Modigliani (1961) however opposed this supposition on the basis that in an ideal world this behaviour will not affect firm worth because clienteles are all similar. Miller and Modigliani (1961) stated that no clientele or payout policy is superior to the other. Switching is healthy for the market since an institution will gain some and lose some.

Dividend irrelevance theory: This was a groundbreaking theory developed by Miller and Modigliani (1961). They made certain assumptions such as an ideal world where there are no taxes or same tax treatment for dividends and capital growth, no transactional or floatation costs when trading securities and costless and symmetrical information. They concluded that dividend is irrelevant. When dividends are distributed, equity is floated to raise finances for current projects. The gains made in the form of dividend is lost through transfer of worth to the new stockholders. The investor also uses the dividend received to purchase new stocks in the same institution. With minimal or zero dividends, stockholder will improvise some dividends by selling off some stocks to get some cash inflows. Therefore, a security will not trade at a discount unless the entity does some value creation activity that investors cannot do for themselves. The worth of an entity is thus, derived by capitalizing all the expected future incomes and not how dividends are distributed.

Empirical Studies

Gill et al. (2010) studied determinants of dividend payout-policy for 266 entities in the USA in 2007. DPR (dependent variable) derived by net earnings to profit after tax. The independent variables that were regressed against DPR included; FCF, profitability, corporation tax, turnover appreciation, market-to-book-value and borrowing. Liquidity was established to be a predictor of dividend distribution. Firms with larger FCF were also found to pay more dividends. There was however no link established between dividends and firm worth. Liquidity also did not affect firm worth. Gill et al. (2010) worked with data for one year which can be affected by factors such as political events. Dividend policy and liquidity were both treated as predictor variables. This study focused on how the relationship between dividend payout-policy and firm worth is moderated by liquidity at the NSE from 2011 to 2020.
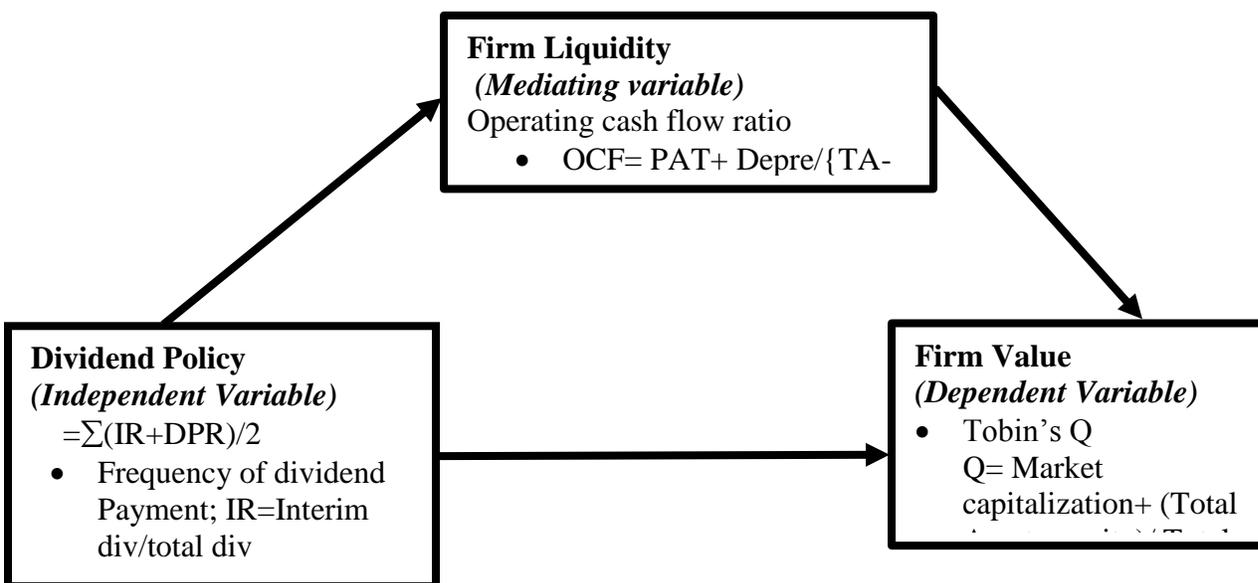
Sukmawardini and Ardiansari (2018) assessed the association among institutional ownership, FCF, performance, dividends, debt policy and company worth. A sample consisting of 14 corporations was selected at the Indonesia Stock Exchange between 2012 and 2016. Company value (dependent variable) was measured by stock prices to book values of stocks. For the explanatory variables, dividend was measured by DPR while FCF was measured by current ratio. The study revealed that high FCF devalues the firm since the FCF is overinvested. This is consistent with the FCF hypothesis. The study however, did not find a relationship between dividends and firm worth. Borrowing was found to be irrelevant to entity worth. The application of price to book value to determine company worth is narrow. For instance, firms with low tangible assets yield a misleading price to book value score. This research will use Tobin's Q to calculate firm value. Computing FCF using current ratio is also limiting. The ratio contains items like inventory and accounts receivables which are not part of the FCF. This study used operating cash flow ratio which is a more robust indicator.

Juhandi et al. (2019) experimented the association among FCF, size, dividends and firm worth. Thirty one manufacturing entities were reviewed between 2010 and 2014 at the Indonesia Stock Exchange. The response variable (company value) was measured by price to book value. Firm value was regressed against FCF, size and dividend payout-policy. They concluded that FCF is linked to corporation worth. High FCF will make the firm more valuable since investors will be attracted to entities with good current ratio and controls. Dividend payout-policy was not found to be linked to firm worth. The study regressed dividends and FCF as predictor variables against firm worth. The current study tests how the link between payout policy and firm worth is moderated by liquidity. The research was done in a more developed country. It also studied only 31 manufacturing entities making generalization of the study findings problematic. The current research considered all the firms listed in Kenya.

Badu (2013) examined determinants of dividend policies for institutions listed in Ghana from 2005 to 2009. Dividend payout-policy (dependent variable) was measured by DPR. Explanatory variables included; profitability, firm liquidity, debt, collateral capacity, growth in turnover and age of the corporation. Cash in addition to its equivalents over total net assets was the attribute for FCF. FCF was found to significantly predict DPR which implies that when there are high levels of FCF, dividends will be declared to mitigate overinvestment. These results support the FCF hypothesis. The study focused on how dividend payout-policy is determined by various factors including liquidity. The current study examined how liquidity

moderated the link between dividend payout-policy and corporation worth between 2011 and 2020. It further uses operating cash flow ratio which is more comprehensive.

Conceptual Model

| **Firm Liquidity** *(Mediating variable)* Operating cash flow ratio |
| • OCF= PAT+ Depre/{TA- |

| **Dividend Policy** *(Independent Variable)* =∑(IR+DPR)/2 |
| • Frequency of dividend Payment; IR=Interim div/total div |

| **Firm Value** *(Dependent Variable)* |
| • Tobin's Q Q= Market capitalization+ (Total |

H_{01}: The relationship between dividend policy and value of firms listed at the Nairobi Securities Exchange is not moderated by liquidity.

Research Methodology

Balanced panel data was collected from the Nairobi Securities Exchange (NSE) for the period between 2011 and 2020. The data was collected from 52 companies at the NSE generating 520 data points. Panel data elevates properties of model parameters because it permits higher degrees of freedom and variability of data. It also enables testing of a complex behavioral hypothesis (Hsiao & Hsiao, 2006). A descriptive, causal and longitudinal research design was adopted. The data was subjected to descriptive statistics and diagnostic and specification and inferential statistics. General Least Squares (GLS) Method was used due to serial correlation and heteroscedasticity problems. Table 1 below presents operationalization of the study variables.

Table 1: Study Variables, Measurements and Comparison with Previous Studies

Variable	Indicator	Operational Definition
Firm Value (FV)	Tobin's Q; ratio of market value to book value of assets	Book values of total assets and total equity; Q= Market capitalization + (Total assets-equity)/Total
Dividend Policy $=\sum(IR+DPR)/2$	Frequency of Dividend payment; Interim Dividend Ratio (IR)	Total actual cash dividend paid as interim expressed in terms of total dividend IR= Interim div/total div Where; Interim dividend is cash dividend paid before financial year end Total dividend is the annual dividend
	Dividend Per Earning Ratio; Dividend Payout Ratio (DPR)	Total dividends divided by total earnings attributable to shareholders DPR= Total Dividends/Total Earnings * 100 Where; Total dividend represents the annual dividend Total earnings is the annual earnings
Firm Liquidity	Operating Cash flow Ratio	PAT plus non-cash outflow items over total assets minus cash and cash equivalents OCF= PAT+ Depre/ {TA- (Cash+ Cash Equivalents)} Where; OCF=Operating Cash Flows PAT= Annual Profit After Tax Depre=Annual Depreciation (Non-cash outflow items) TA= Average Total Assets (Opening TA+ Closing TA)/2 Average cash in hand plus cash at bank balances (opening + closing value)/2 Cash equivalents= The average value of short-term high liquidity investments securities (opening + closing values)

The estimation model is stated as;

Firm Value = f (DP, Firm Liquidity)

$$FV_{it}= \beta_0 +\beta_1 DP_{it} + \beta_2 LQ_{it} + \beta_3 (LQ_{it} * DP_{it}) + \varepsilon_{it} \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots \text{(i)}$$

Where; FV_{it} is value of firm j in time t, DP_{it} is dividend policy composite of firm j in time t, LQ_{it} is liquidity of firm j in time t , β_0 is the regression constant or the y intercept, β_1 is the regression coefficient, ε_{it} =random error term, t=2011 to 2020 and i=1 to 62

Table 2: Descriptive Statistics

	FV	DP	LIQ
N	520	520	520
Mean	1.26956	0.20237	0.06251
Median	0.99870	0.11030	0.05170
Maximum	6.96370	12.50000	2.28680
Minimum	0.00000	-24.28780	-2.45810
Std. Dev.	1.03928	1.28728	0.30207
Skewness	2.86380	-11.32626	-2.64988
Kurtosis	11.91965	269.90620	31.84604

Table 1 presents that the scores are, firm value 1.27 ± 1.04, dividend policy 0.20 ± 1.04 and liquidity $0.06 \pm .03$. There were high variability in firm value and dividend policy. Kurtosis were both positive indicating a heavy-tailed distribution.

Diagnostic and Specification Tests

This study carried out diagnostic and specification tests to ensure that the dataset met the assumptions of panel data regression model. The tests that were conducted included; panel unit root, heteroscedasticity, autocorrelation and multicollinearity.

Panel Unit Root test

PP-Fischer Chi-square was used to test for stationarity and cointegration order *I(d).* The null hypothesis stated that unit root exists while the alternate hypothesis stated that unit root is non-existent. When $p < 0.05$, unit root does not exist while, when $p > 0.05$, unit root is present.

Table 3: Summary of Panel Unit Test

Series: Firm Value, Dividend Policy and Liquidity
Sample: 2011 2020
Exogenous variables: Individual effects
Automatic selection of maximum lags
Automatic lag length selection based on SIC: 0 to 1
Newey-West automatic bandwidth selection and Bartlett kernel

Variable	Statistic	Prob.**	Cross-sections	Obs
Null: Unit root: PP- Fischer Chi-square				
Firm Value	130.554	0.0401	52	468
Dividend policy	235.769	0.0000	48	432
Liquidity	267.944	0.0000	52	468

** Probabilities for Fisher tests are computed using an asymptotic Chi -square distribution. All other tests assume asymptotic normality.

The p-values in table 3 are all below 0.05 ($p<0.05$). The conclusion is that the datasets were stationary.

Heteroscedasticity Test

Breusch-Pagan was used to test for homoscedasticity of the dataset. The null hypothesis states that there is no of heteroscedasticity. The null hypothesis is rejected if $p> 0.05$, otherwise, fail to reject the null hypothesis if $p<0.05$.

Table 4: Heteroscedasticity Test Results

Breusch-Pagan/Cook-Weisberg test for heteroskedasticity
H_0: Constant variance
Chi2(3)= 83.3
Prob> chi2=0.0000

The result of $p=0.0000$ ($p<0.05$) implies that homoscedasticity assumption was not fulfilled. The study therefore used general least squares (GLS) fixed-effect model to address the heteroscedasticity problem.

Autocorrelation Test

To assess existence of serial correlation, Breusch-Godfrey LM test was adopted. The null hypothesis presents that serial correlation does not exist. The rule is to reject the null hypothesis if $p>0.05$. Fail to reject the null hypothesis if $p< 0.05$.

Table 5: Serial Correlation Test results

Breusch-Godfrey LM test for autocorrelation			
lags(p)	chi2	df	Prob> chi2
1	306.64	1	0.0000
	H_0: no serial correlation		

The study failed to reject the null hypothesis and concluded that serial correlation existed since table 5 shows p-value of 0.0000 (p<0.05). As a consequence, weighted least square model (GLS) fixed-effect model which addresses serial correlation problem was espoused.

Multicollinearity

Variance inflation factor (VIF) was applied in testing for collinearity in the dataset. A VIF exceeding 10 (VIF > 10) indicates existence of multicollinearity.

Table 6: Multicollinearity Test Results

Variable	VIF	1/VIF
DP	1.000	0.998
LIQ	1.000	0.998
Mean VIF	1.000	

In table 6, the VIF scores are all below 10 (VIF<10) implying absence of multicollinearity.

Correlation Analysis

This study used correlation analysis to evaluate the interrelation between the study variables.

Table 7: Correlation Analysis results

Correlation t-Statistic Probability	FV	DP	LIQ
FV	1.0000		

DP	-0.0191	1.0000	
	-0.4346	-----	
	0.6640	-----	
LIQ	0.2788	0.0421	1.0000
	6.6062	0.9597	-----
	0.0000	0.3377	-----

Table 7 above presents that the relationship between firm value and dividend policy (r=-0.0191, p=0.6640) was negative and insignificant. The relationship between firm value and liquidity (r=0.2788, p=0.0000)

was positive and significant while the one between dividend policy and liquidity (r=0.0421, p=0.3377) was positive and insignificant. All the coefficients are less than 0.8 limit implying absence of multicollinearity in the dataset.

Hypothesis Testing and Discussions

The objective of this study was to examine how the relationship between dividend payout-policy and value of corporations listed at the NSE is moderated by liquidity.

H_{01}: The relationship between dividend policy and value of firms listed at the Nairobi Securities Exchange is not moderated by liquidity.

Baron and Kenny (1986) process was used to evaluate the moderating effect of liquidity on the interrelation between dividend policy and value of companies at the Nairobi Securities Exchange. This process involves testing the relationship between the independent and moderating variables and thereafter, an interaction term is introduced. The product between liquidity and dividend was computed in order to arrive at an interaction term. To minimize chances of multicollinearity, the variables were converted into standardized Z scores. The converted values were then multiplied to determine the interaction term. A panel GLS fixed-effect method was then adopted to examine the interaction between dividend policy and firm worth. The results are contained in the table below.

Table 8: Regression output for Dividend policy, Liquidity, Interaction Term (LQDP) and Firm Value

Dependent Variable: FV
Method: Panel EGLS (Cross-section weights)
Sample: 2011 2020
Periods included: 10
Cross-sections included: 52
Total panel (balanced) observations: 520

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.251729	0.006245	200.4529	0.0000
DP	0.008893	0.015404	0.577334	0.5640
LIQ	-0.010354	0.041396	-0.250116	0.8026
LQDP	0.580921	0.247686	2.345395	0.0194

Effects Specification

Cross-section fixed (dummy variables)

	Weighted Statistics		
R-squared	0.812590	Mean dependent var	4.079030
Adjusted R-squared	0.790826	S.D. dependent var	3.888817
S.E. of regression	0.511337	Sum squared resid	121.5817
F-statistic	37.33683	Durbin-Watson stat	0.977989
Prob(F-statistic)	0.000000		

Findings and Discussions

The objective of this study was to examine how the interrelationship between dividend policy and the value of corporates listed at the NSE is moderated by liquidity. Table 8 above reveals that the scores for dividend policy (β_1=.008893, p=.5640) and liquidity (β_2=-.010354, p=.8026) were insignificant. The interaction term of LQ*DP (β_3=.580921, p=.0194) was positive and statistically significant. The overall model was statistically significant (adj.R^2 =.79, F $(1,519)$ =37.33683, p=.000, d=.978). The results imply that 79% variations in firm value was explained by dividend policy, liquidity and the interaction term. Output of the interaction term indicates that the p-value is statistically significant. The conclusion is that the null hypothesis, H_{03}, should be rejected and a conclusion be drawn that the link between dividend payout-policy and corporation worth is moderated by liquidity. The prediction model is as stated in equation below;

FV= 1.25 +0.01DP - 0.01LQ + 0.58(LQ * DP)………………………… (1)

Conclusions and Recommendations

The findings of this study indicate that the relationship between dividend policy and firm value is not direct but with the introduction of liquidity as a moderator, the relationship is positive and statistically significant. The null hypothesis H_{03} which stated that the relationship between dividend payout-policy and the value of firms listed at the Nairobi Securities Exchange is not moderated by liquidity was rejected. This study concluded that the link between dividend payout-policy and firm worth is moderated by liquidity. This study recommends that firms should distribute internally generated funds and thereafter, raise debt capital. Debt providers continuously monitor insiders' behavior compelling them to align with the objectives of the investors.

Firm managers at the NSE carefully observe debt covenants since failing to fulfil debt obligations could trigger bankruptcy proceedings. Managers should pay dividends in order to cut the free cash flow which is prone to overinvestment. Liquidity plays a critical role in moderating the relationship between dividend policy and firm value. These findings validated agency theory which this study is founded on. It also upholds the free cash flow hypothesis. The findings confirm that dividend cuts FCF which can be invested sub-optimally. Debt created thereafter, improves the efficiency of insiders thereby enhancing firm value.

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