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Dividend Policy in Firms Listed at the Nairobi Securities Market: Does Shareholder Activism Matter?

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Abstract:
Purpose: This study investigated the effect of shareholder activism on dividend policy. Design/Methodology: The study adopted an explanatory research design, specifically the ex-post factor design. The panel data was drawn from 54 listed firms at the Nairobi Securities Exchange (NSE) in eleven different sectors between 2008 and 2017. The study units were annual audited reports.
Findings: The results showed that shareholder activism had a positive and significant effect on dividend policy, b_1=0.0992, p<.05. This effect was significant at the one percent significance level. The inclusion of both growth in sales and firm size as covariates maintained the significant effect of shareholder activism on dividend policy, b_1=0.0992, p=.05, indicating robust results.
Originality: This study confirms that shareholder activism strongly influences the dividend decisions of firms. It contributes to the emerging trends of corporate governance, which demand the embracement of key stakeholders in major decisions. It provides an opening on control of management indirectly through shareholding.
Practical Implications: It is prudent for company executives to understand the nature of shareholder activism and their perception of dividend policy, match activism and dividend policy, and the company's future. Firms should also design policies to forge a fair distribution of share ownership between large and small shareholders and be wary of concentrating shareholder activism among large shareholders. Dividend policies must also factor in firm size and growth in sales.

Keywords: *Shareholder activism, dividend policy, sales growth, firm size, security exchange*

1. Introduction

Dividend policy ranks among critical financial decisions that impact firms' financial performance. It is defined as a policy employed by a company to structure dividend payments, a dividend policy relates to the amount of cash to be distributed among shareholders (Baker & Weigand, 2015). Therefore, the dividend policy seeks to balance the maximization of shareholders' wealth and the growth of finance projects within the firm. Viewed this way, dividend policy represents a crucial strategic financial decision that needs the involvement of shareholders.

Dividend policy has gained prominence in influencing the financial performance of firms. Its trend is mired with controversy regarding the factors contributing to its distribution and measurement. The firms listed on the Nairobi securities exchange have mixed financial results under the same economic conditions (Putra & Lestari, 2016; Setiyowati & Retnasari, 2018; Mokaya et al., 2013; and Memon et al., 2017). Previous studies have explored the role of board composition, corporate governance, and capital structure as factors influencing dividend policy. However, the current trend in listed companies is in the practice of shareholder activism in controlling various corporate governance and financial decisions/policies.

Globalization has led to market liberalization and privatization in Kenya, resulting in a very competitive business environment. Consequently, most public entities seek listing on the Nairobi Stock Exchange (NSE) to gain from a pool of funds. However, some listed companies often face several challenges. Previous evidence has shown that several publicly traded firms could not withstand financial distress and were either put under receivership, asked to restructure, or were delisted. Among these firms include Eveready East Africa, Kenya Airways, Nakumatt Supermarket, Nyaga Stock Brokers, Imperial Bank, East African Packaging, Pearl dry cleaners, Rea Vipingo Plantations, and Mumias Sugar Company, among others.

The current business environment has seen financial distress arising from disturbances such as the COVID-19 pandemic and the Russia-Ukraine war. This distress calls for decisions to make firms listed at the NSE to remain resilient. However, this environment has lowered economic activities that corporate often undertakes, leading to a reduction in cash flow. According to Kriegler et al. (2021), anticipation for survival is expected to result in the corporate reducing shareholder dividends, albeit in the short term.

Previous evidence has shown that crises such as the Russia-Ukraine war negatively impact dividends (Reddemann et al., 2010). Further research has demonstrated that companies can adopt a negative shift in dividend policy (Abdulkadir et al., 2015; Hauser, 2013), yet consensus has never been reached regarding the reduction or non-reduction of dividends. Based on the cash flow theory, one strand of scholars argues that dividends are imperative to the stability of business operations (Kriegler et al., 2021; Lim, 2016). However, such a lack of consensus requires that decisions are made to balance owners' needs and capital markets.

Firms' owners have often asserted their influence on management through shareholder activism. Decisions focusing on dividend policy need to take cognizance of shareholder activism. Shareholder activism, perceived as actions that shareholders can take to influence corporate management based on shareholding rights (Grewal, Serafeim & Yoon, 2016), attracts interest among scholars researching corporate governance (Hadani et al., 2018; Malka, 2017). According to Malka (2017), shareholder activism involves informal or formal efforts by investors or shareholders to bring desired change while maintaining corporate control. Hadani et al. (2018) perceive shareholder activism as an avenue through which shareholders exploit ownership rights to influence the management of publicly traded firms.

Some of the previously listed firms that have been put under receivership, restructuring, or delisted from the NSE have found themselves in that state due to poor corporate governance (Gachoki & Rotich, 2013). Despite legal frameworks for corporate governance, scandals such as the shutdown of Tuskey Supermarket and the closure of Nakumatt Holdings Limited continue to be experienced among listed firms. Under such scandals, questions emerge regarding the role of shareholder activism in decisions involving dividends. Therefore, this research seeks to address whether shareholder activism positively affects dividend policy in listed firms at the NSE.

2. Literature Review

2.1. Shareholder Activism and Dividend Policy

Empirical evidence demonstrates the impacts of shareholder activism on dividend policy in various contexts. Barros et al. (2021) used the US context to report the positive influence of shareholder activism on firms' dividend payments. Therefore, a similar study in the Kenyan context could shed more light on shareholder activism and how it can be exploited responsibly to stop corporate scandals.

Lopez-Iturriaga and Santana–Martin (2015) demonstrated that as dominant shareholders entered into activism, payment of dividends was reduced. Exploiting voting rights also emerged as a critical facet of dividend policy. This exploitation of rights ultimately maintains positive equity that would allow compensation of creditors. Examining the effect of shareholder activism on dividend policy using three-block holder shareholders is likely to unravel the issues that faced entities such as Turkey's Supermarkets and Nakumatt holdings, whose shareholders were primarily family members.

Driver, Grosman, and Scaramozzino (2020) demonstrated that some dividend policy decisions were undertaken under shareholder pressure. Such pressure was sometimes a result of competitors' takeover threats and higher payout offers, leading to significant shareholders' embezzlement of cash, making the firm unattractive to predators. For instance, in 2016, two directors of the then Tuskey's chain of supermarkets in Kenya were charged in court for stealing Ksh1.6 billion from the chain (Wasuna, 2021). Therefore, this study aimed to illuminate the nature of shareholder activism that can minimize voting rights and decision-making monopoly among shareholders.

Saez and Guttierrez (2015) demonstrated that shareholder activism negatively impacted dividend policy. Pucheta–Martinez and Lopez-Amora (2017) used the proportion of foreign investors and a dummy for shareholder activism to determine their role in shaping dividend policy decisions. Their study showed that such shareholders are keen to adhere to corporate governance tenets. They insist on adopting good corporate governance and enforcement of internal control systems to control operational costs and improve financial performance. The study concluded that shareholder activism positively and significantly affects dividend policy decisions.

Shareholder activism puts pressure on company executive officers to be cautious in embracing policies that will attract militant shareholder activism. The select dividend policies are based on the demands of major shareholders. The CEOs of the companies are keen to keep their jobs and do everything possible to design dividend policies in line with shareholders' needs (Kilincarslan & Ozdemir, 2018). Shingade et al. (2022) studied shareholder activism and its impact on the profitability, return, and valuation of firms in India. Shareholder activism predicts an insignificant negative impact on firm performance. Togan (2022) posited that hedge activism contributes to firm performance and good corporate governance.

A study by Bourveau and Schoenfeld (2017) posited that shareholder activism leads to a positive and significant effect on earnings. Shareholders, through shareholder activism, pressurized the firm managers to practice prudent management, leading to high returns. This implied that shareholder activism manipulates critical company decisions such as price earnings and dividend policies. Mancinelli and Ozkan (2006) concurred with Kuhlmann (2017), whose study results showed that dividend policies are influenced by the activities of significant shareholders of the companies.

Shareholder activism had long effects on the dividend policy of hedge funds (Drerup, 2014). This was supported by a study by Kabi (2015), who posited that institutional investors maintain a paramount role in the amount of dividends paid. However, Kilincarslan and Ozdemir (2018) established that shareholder activism had a significant but negative effect on the dividend policy decisions of firms. Maffet et al. (2020) investigated the impact of shareholder activism on dividend payout. The results showed that shareholder activism positively and significantly affected dividend policies.

Kabi (2015) argued that institutional investors play a crucial role in dividend policy decisions. They have majority share ownership and dictate significant policies that shape most firms' core operations listed on the security exchange. The findings of Abor and Fiador (2014) postulated that board composition decides the nature of shareholder activism and dividend policy of firms listed on the security exchange of Ghana. The board of directors decides on policies governing shareholders' distribution and composition, consequently managing their activism. According to Maffett et al. (2020), shareholder activism leads to a high dividend payout. This study used cross-border activism and was motivated by the global nature of shareholder activism. Bena and Hononsek (2005) posited that shareholder activism negatively and significantly affected dividend policy. These findings were supported by the study results of Mead (2016) and Guizani (2014). However, Albouy and Schatt (2010) argued that shareholder activism had insignificant effects.

Pucheta-Martíneza and López-Zamora (2017) posited that shareholder activism influences dividend policy significantly. This study measured shareholder activism using institutional investors and institutional directors. According to Pucheta-Martíneza and López-Zamora, (2017), institutional investors demand good corporate governance. Kilincarslan and Ozdemir (2018) supported this study by investigating the role of shareholder activism on dividend policy among United Kingdom Firms. Mancinelli and Ozkan (2006), who investigated the relationship between block shareholders and dividend policy, reported that the block shareholders contributed to decreasing dividend payments. Most block shareholders are wealthy shareholders who are interested in wealth creation instead of cash dividends. Drerup (2014) explored the relationship between shareholder activism and dividend policy and reported that hedge fund activism had a positive and significant effect on dividend policy in the German context.

One strand of studies has reported a positive and significant effect of shareholder activism on dividend policy (Adjaoud & Ben–Armar, 2010, Lopez-Ituriaga & Santana-Martin, 2015, Barros et al., 2021, Pucheta–Martineza and Lopez-Amora, 2017, Kilincarslan & Ozdemir, 2018, Bourveau & Schoenfeld 2017, Mancinelli & Ozkan 2006, Drerup 2014 & Kabi 2015); another strand reported that shareholder activism had significant and adverse effects on dividend policy (Bena & Hanonsek, 2005, Mead 2016, Guizani 2014, Sáez, M & Gutiérrez 2015 & Driver, Grosman & Scaramozzino 2020). However, another strand has posited insignificant effects (Albouy & Schatt, 2010); such contradictions in findings provided a knowledge gap that motivated the current study to investigate the relationship between shareholder activism and dividend policy.

2.2. Control Variables (Growth in Sales and Firm Size) and Financial Performance

These were characteristics of firms that are likely to influence the dependent variable. Odalo et al. (2016) reported that sales growth had a positive and significant effect on the financial performance of firms, while Jung et al. (2017) posited that growth in earnings attracted higher returns on firm financial performance. Fuller and Jensen (2002) supported this. Sinha and Verma (2020) examined the effect of sales on product perceived value. They posited that sales volume affects product perceived value as manifested by market dynamics.

William and Michael (1995) investigated the impact of sales and income growth on profitability in actual and simulated firms; the results showed that sales and income have a significant effect on market value. Afinindy et al. (2021) examined the effect of profitability on sales growth and deduced that sales growth and profitability have no significant effect on company value. At the same time, growth in sales and profitability cannot predict the market value of a firm. Rakasiwi (2017) researched the effect of sales growth and firm value. The results showed that there is a negative and significant effect on firm value. This finding was supported by the results of Dhani (2017) and Mu'azizah et al. (2018). Viererbl, B., & Koch (2022) posited that growth in sales significantly predicts the firm value albeit negatively, thus paradoxical. It was expected that growth in sales would lead to increase in firm value. Angelia (2021) studied the effects of sales growth and independent commissioner's supervision on financial performance; while using corporate social responsibility as a moderator, she concluded that sales growth and commissioner's supervision have a positive and significant effect on the financial performance of Indonesian Stock Exchange.

However, introducing the CSR moderator weakens the relationship. Yazdanfar (2015) postulated that higher sales lead to competitive advantage, consequently giving the firm the capacity and process to exploit opportunities. This eventually leads to an increase in market value. Eka (2018) studied the role of sales growth in increasing firm performance in Indonesia and deduced that sales growth mediates the relationship between investment and financial performance. The results conducted by Maroofi et al. (2017) showed that sales strategy has a significant effect on financial performance. Odalo et al. (2016) carried out a study relating sales growth and financial performance in agricultural firms listed on the Nairobi securities exchange. The study confirms that sales growth positively and significantly affects financial performance.

According to Mead (2016), a firm size influences the firm's profitability and has the potential to influence the market value. Kabi (2015) and Hossain et al. (2021) established that firm size contributes to the profit levels of firms. Lopez-valeiras et al. (2016) studied the effect of firm size on financial performance. They established a positive and significant relationship between firm size and the financial performance of firms. Hung et al. (2021), using panel data from 2009 to 2018 in Vietnamese Private Firms, found that firm size impacted the performance of firms. Specifically, the study showed that firm size reflected by non-current assets, manpower, and output volumes are influenced by firm size. Hossain et al. (2021) argued that firm size affects the profit levels of the firm. Wayongah and Ochieng (2019) studied the firm size and financial performance and posited that it has positive and significant relationships. Therefore, this result informs the selection of firm size and growth in sales as control variables because they have the potential to manipulate the dependent variable.

A study carried out by Pervan and Visic (2012) used panel data for 2002 – 2010. The results showed that there is a positive effect of firm size on profitability, albeit meek. It postulates that large firms enjoy economies of large-scale operation, boost mass production, and enjoy discounts, advertisement costs, managerial economies, staff welfare, and transport economies. Niresh & Thirunavukkarasu (2014) studied fifteen manufacturing companies listed on the Colombian exchange for the period 2008 – 2012. The findings of this study showed an insignificant effect of firm size on profitability. It further posited that the cause of insignificant link results from managers being preoccupied with customer satisfaction, consumer behaviour, and other non-measurable outcomes instead of maximization of profits. While investigating the relationship between firm size and profitability of eighty commercial banks on the Nigerian Stock Exchange for the period 2000-2009, Babalola (2013) reported a further positive relationship. While using mediating variables of leverage and total debt, a negative relationship was found.

Azhar and Ahmed (2019) used ten top textile firms quoted on the Pakistani security exchange to establish the effect of firm size on the profitability of competitive firms. The results deduced no significant relationship. Akram et al. (2021) researched the impact of firm size on profitability and reported a positive and significant relationship between firm size and profitability. Solmaz (2015) investigated the sales growth and potential growth effect on financial reporting quality at listed companies. The findings deduced that success growth and potential growth had a significant effect on financial reporting quality. This result is supported by Muhammad (2018), who postulated that sales growth had a statistically significant effect on net profit. These findings showed contradiction to existing studies linking shareholder activism and dividend policy. Under such a framework, we question the nature of shareholder activism's effect on dividend policy. Therefore, we postulate that

- $H_0 1$: Shareholder activism has no significant effect on dividend policy

3. Methodology

This study investigated the effect of shareholder activism on the dividend policy of firms listed on the NSE. Dividend policy, the endogenous variable, was measured using dividend yield, a proxy that makes it easy to see the return on investment (Ross, 2021). The dividend yield was subsequently presented as the annual dividends per share percentage over the price per share. Shareholder activism, the primary exogenous variable, was measured through the three-block shareholder index. Large block holders were perceived to offer better governance, improving shareholder wealth (Shapiro et al., 2015). A robust check was also carried out by measuring the time dummy variable with other exogenous covariates to test resilience and consistency in the main effects of shareholder activism on dividend policy. The exogenous covariates tested were growth in sales and firm size.

The study used panel data drawn from 54 companies listed at the NSE in eleven divergent sectors. Data were for the period 2008–2017. A census survey on the firms identified through the NSE market fact file 2021. The study units were annual audited reports that were scrutinized for data about shareholder activism (ratio of 3 block shareholding to total shareholding), dividend policy (dividend per share: market price per share), growth in sales (change in sales value to previous year sales value), and firm size. Considering that panel data are usually associated with Pooled Ordinary least squares (OLS), Random effects (RE), and Fixed Effects (FE) models, the non-significant Hausman test results $\chi^2(1) = .01$, p=.911 shown in Table 1 meant that the random-effects model was the suitable econometric model for this study.

Coefficients				
	(b) fixed	(B) random	(b-B) Difference	Sqrt(diag(V_b-V_B)) S.E.
Shareholder activism	.0994	.0992	.0002	.0015
b = consistent under Ho and Ha; obtained from xtreg				
B = inconsistent under Ha, efficient under Ho; obtained from xtreg				
Test: Ho: difference in coefficients not systematic chi2(1) = (b-B)'[(V_b-V_B)^(-1)](b-B)= 0.01 Prob>chi2 = 0.9108				

Table 1: Hausman Test for Dividend Policy on Shareholder Activism

The corresponding RE model is shown in equation 1.

$DP_{it} = b_o + b_1 SA_{it} + \alpha_i + U_{it}$ ………………………………………………equation 1

Where DP is the dividend policy variable, SA is the shareholder activism variable, α_i is the firm-specific error, and U_{it} is an idiosyncratic error. This model required that both U_{it} and α_i are not correlated to the regressors. The model also allowed the variance of the error term to be heterogeneous across firms. Assuming that α_i and U_{it} were unrelated to regressors, we anticipated the regression coefficients to be estimated consistently.

An econometric model was conceptualized to measure direct effects, as illustrated below.

Modelling the direct effect of shareholder activism on market value

$DP_{it} = \beta_0 + \beta_1 GS_{it} + \beta_2 FS_{it} + \beta_3 SA_{it} + e_{it}$ …………………… model 1

Where:

GS_{it} is growth in sales for firm i in the year t

FS_{it} is firm size for firm i in the year t

SA_{it} is shareholder activism year t for firm i
DP_{it} is dividend policy for firm i in year t
e_{it} are the regression residuals associated with the various models.
β_0 represents the initial value of the criterion variable for either model,
β_i for i=1, 2, 3 represents standard regression coefficients (Note interpretation of the results used unstandardized weights).
i represents the various firms that numbered 54
t is the time series period that ranged from 2008 to 2017

3.1. Measurements

Dependent and independent variables were measured using the theoretical construct guiding the study. The variables under the study were shareholder activism (independent variable) and dividend policy (dependent variable).

3.2. Independent Variable – Shareholder Activism

Previous studies adopted different measurements for shareholder activism. King and Bozos (2017) used the shareholder response index (SRI), and Renneboog and Szilagyi (2008) used the percentage of institutional investors to equity ownership as a measurement for shareholder activism. Arora and Bhandari (2017) used three-block shareholders, while Armour and Cheffins (2009) used a percentage of mainstream institutional investors. Other scholars such as Bhandari, Iliev, and Koladimos (2021) adopted the number of institutional shareholder proposals; Kuhlmann (2017) measured shareholder activism using block equity investors of at least fifty percent of the companies. Guizani (2014) used the percentage of institutional investors so is Fukuda (2020). Kabi (2015) measured shareholder activism using the percentage of long-term institutional investors. This study used the three major/block shareholders index since the information was available in the Nairobi Security Exchange (NSE) published financial reports.

3.3. Depended on Variable–Dividend Policy

Previous studies have adopted different measurements for dividend policy. Adefila et al. (2004) adopted dividend yield and dividend payout. The dividend yield was obtained by dividing the dividend per share by the market price per share. Guizani (2014) used dividend payment as a proxy for dividend policy. Dividend payout was obtained by dividing dividend per share by earnings per share.

Memon et al. (2017) and Brahamaia and Ravi (2017) used dividend yield as the measurement for dividend policy; other scholars, such as Dang et al. (2019), used dividend payout as a dummy variable for dividend policy. Dividend policy was measured using dividend yield. This was supported by previous studies done by Kyle and Frank (2013), Memon, Channa, and Khoso (2017), and Almeida et al. (2015). Mead (2016) measured dividend policy using cash and script issue index. However, the information dividend yield was readily available at NSE. This study adopted dividend yield since the data relating to its computation was readily available in published reports of firms listed at NSE.

3.4. Control Variables (Firm Size and Growth in Sales)

Firm size was measured using the Natural Logarithm of total assets. This borrowed from the previous studies of other scholars such as Jung, Soenen, and Ramezani (2017), Gray and Nowland (2014), Byun et al. (2012), and Carter (2010), whereas growth in sales/revenue used the percentage of change in sales to previous sales value. Earlier studies supported this (Odalo et al., 2016). However, Michelon et al. (2020) suggested that using a logarithm of sales revenue at the end of the year percentage of sales change was appropriate for panel data.

Variables	Measurements	Formula	Notation
Independent variables • Shareholder activism	Value of three principal shareholders or three block shareholders Bhandari & Arora (2017); Kuhlmann (2017); Guizani (2014); Fukuda (2020); Kabi (2015)	Three significant shareholders' capital value/total value of share capital	MSC/ TVSC
Mediating variable • Dividend policy	Dividend yield Adefila, Oladipo & Adeoti (2004); Almeida & Pereira (2015); Guizani (2014)	Log of dividend per share divided by market price per share (fiscal year ending stock price).	Log DPS/MPS
Control variables • Firm size • growth in sales	Value of total assets (Ramezani (2017); Gray and Nowland (2014); Byun et al., (2012) and Carter et al., (2010). Sales increment each year (Odalo, Njuguna & Achoki (2016)	Change in value of total assets Change in Sales/ Previous Year Sales	Log ΔTA ΔS/SO

Table 2: Measurement of Study Variables Summary

4. Results

4.1. Descriptive Statistics

Table 3 shows the descriptive statistics. The ratio of 3 block shareholder capital to total share capital averaged 0.543 with a standard deviation of 1.578. The minimum shareholder activism was valued at 0.000364, while the maximum was 26.07. The inter-firm variation in shareholder activism was 1.044, while the intra-firm variation was 1.191. The small standard deviations indicated that shareholder activism did not differ within and between the listed firms. The dividend policy had an overall mean of 0.0663 with a standard deviation of 0.185. The significance of this small average was that most of the listed firms opted to re-invest earnings into finance projects. However, the maximum dividend policy of 2.61 implies that some firms were paying dividends that surpassed earning potential.

Variable		M	SD	Min	Max
Shareholder activism	Overall	.5425458	1.578405	.0003636	26.07407
	Between		1.044105	.000874	7.815075
	Within		1.191389	-7.247148	18.80155
Dividend policy	Overall	.0662748	.1845878	0	2.607407
	Between		.1136675	.0000874	.7815075
	Within		.1461782	-.7126946	1.892175

Table 3: Descriptive Statistics for Study Variables and Controls

4.2. Shareholder Activism and Dividend Policy

Table 4 reports the estimated results of the equation. Using the RE model, a 1 percent increase in shareholder activism led to a 0.0992 percent increase in dividend policy. This effect was significant at the 1 percent level.

Dividend Policy	RE
Shareholder activism	.0992** (.0029)
_Cons	.0124 (.0068)
Wald chi2(1)	1165.17**
R-Squared	0.7173

Table 4: Results of Regressing Dividend Policy on Shareholder Activism

4.3. Robustness Checks

The robustness of the random effects model involved testing the regression coefficient between shareholder activism and dividend policy by including other covariates. Table 5 shows that with the inclusion of growth in sales, the coefficient of shareholder activism (b_1 = 0.0992) was still significant. This lack of change in significance implied that the significant coefficient was induced by the genuine relationship between shareholder activism and dividend policy but not by growth in sales. Similarly, with the inclusion of firm size, the coefficient of shareholder activism (b_1 = 0.0992) was still significant, showing that the genuine relationship between shareholder activism and dividend policy was responsible for the significant coefficient instead of firm size. The inclusion of both growth in sales and firm size as covariates did not alter the significant coefficient of shareholder activism (b_1 = 0.0992). Therefore, the significant coefficient was induced by the genuine relationship between shareholder activism and dividend policy.

Dividend Policy	Growth in Sales	Firm Size	Growth in Sales and Firm Size
Shareholder activism	.0992321**	.0992162**	.0992203 **
_cons	0.012498	0.012862	0.012943

Table 5: Growth in Sales, Firm Size, and the Combination of Growth in Sales and Firm Size as Covariates
***Significant at 0.01*

The three robustness checks confirmed that including other covariates did not change the significance of the direct effects of shareholder activism on dividend policy. This finding confirmed that the effect of shareholder activism on dividend policy was independent of firm and time.

5. Discussion

The potential of shareholder activism to impact dividend decisions and, by extension ability to help listed firms deal with disruptions was proven. Furthermore, the study revealed that shareholder activism impacts dividend policy positively through the random-effects model. However, it is essential to note that the RE model only allows the firm fixed effect and assumes that such effect is not correlated with any regressors. Therefore, we may argue that bias may exist due to ignoring the possibility of correlation between the firm fixed effects and regressors. Besides, the RE model could not ascertain consistency in estimating the regression coefficients.

The positive effect of shareholder activism measured through the three large block holder shareholders on dividend policy supports Kuhlmann and Rojahn's (2017) views that large shareholders often dominated dividend decisions. They sometimes voted, intending to benefit themselves (Musango, 2016). With the self in mind, this voting explains how two directors can swindle 1.6 billion from a firm, as in the Tuskey's supermarkets case. Besides, the findings showing the positive influence of shareholder activism on dividend policy echoed Driver et al. (2020), indicating that takeover threats tended to influence shareholders to pressurize dividend decisions.

Pucheta–Martinez and Lopez-Amora (2017) support the findings of this study. They established that shareholder activism had a significant positive relationship with dividend payment, although this study measured shareholder activism using foreign and institutional directors sitting on the boards. Foreign investors and institutional investors are keen on good corporate governance and were found to be pressure sensitive. Mancinelli and Ozkan (2006) further supported these results by positing that large shareholders dictated corporate executives to decrease dividend payout and enhance wealth maximization.

Lopez-iturriaga and Santana-Martin's (2015) findings supported the current study. They found that significant shareholders pressured company executive officers to decrease dividend payout to increase retained earnings for capitalization. This study confirmed the findings of Barros (2021), who reported that shareholder activism influenced decisions to pay dividends. Barros (2021) is the most current initiative to contribute to the discourse on shareholder activism using the USA perspective.

The results of Saez and Gutierrez (2015) supported the current study, although it posited that shareholder activism impacts dividend policy negatively. This study contradicts the other scholars who have found that shareholder activism has an insignificant effect on dividend policy (Albouy & Schatt, 2010). The findings showing the positive influence of shareholder activism on dividend policy underscore the importance of focused shareholder activism in listed firms. Such shareholder activism is poised to balance the distribution of profits through dividends and firm growth. Strict dividend policies would lock out hedge fund activism that may encourage change in firms' financial structures, board composition, and strategies.

6. Policy Implications

In this case, the Modigliani and Miller (MM) theory of 1961 is contradicted. It shows that shareholder activism and, by extension, the composition of capital influence dividend policy. Policymakers should therefore understand that emerging changes have overtaken the MM irrelevant theory. They should align their dividend policies to the current trends. Firms listed in security markets should practice prudent shareholder activism that positively and significantly impacts dividend policy. The significance of dividend policies in setting parameters for delivering dividends to shareholders cannot be overemphasized. Shareholder activities have assisted in moderating liberal dividend policies to control financial structures and board compositions.

7. Conclusion

Because of the findings and subsequent discussions, the following conclusions are drawn consistent with the objective. The researcher concludes that shareholder activism has a significant impact on dividend policy. Similar to existing studies, the impact is positive in the case of firms listed at NSE. It implies that shareholder activism is paramount in forming dividend policies of firms listed at NSE. It is feasible given that several factors that could have led to these findings can be traced. The nature of investors and types of dividends are bound to contribute significantly. Through shareholder activism, investors can control management to avoid the gaps between ownership and management. Despite the strong impact of shareholder activism on dividend policy, firms should be wary of concentrating shareholder activism among large shareholders who end up dictating unpopular dividend policies which do not favour minor shareholders.

8. Limitations and Further Researcher

The study focused on quoted firms at the Nairobi security exchange found in the republic of Kenya. It utilized the financial reports prepared with assumptions such as prudence, materiality, and subsistence over form. The study's findings were based on panel data from 2008 to 2017 for companies listed at NSE. The study did not capture the concept of shareholder activism in private limited companies. The indicator of shareholder activism was the three largest shareholder ratios to total share ownership. Other indicators, such as the proportion of foreign shareholders, institutional shareholders, and employee shareholders, were not explored. There is a need to explore other methods of measuring shareholder activism. Therefore, the findings are inconclusive: Consequently, recommendations for future studies may lead to better modeling of relationships involving shareholder activism, firm size, growth in sales, and dividend policy. Corporate social responsibility disclosure should be incorporated as a moderator to test its moderated effects on the relationship between shareholder activism and dividend policy.

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