

Effect of Earnings Persistence on Dividend Payout of Non-Financial Firms Listed at the Nairobi Securities Exchange

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Abstract

This study examined the effect of earnings persistence on dividend payout among non-financial firms listed at the Nairobi Securities Exchange (NSE). Earnings persistence is widely recognized as an important dimension of earnings quality because it reflects the sustainability and recurrence of reported earnings, thereby influencing investors' expectations regarding future cash flows and dividend payments. The study was based on agency theory and the signalling theory. The study adopted a positivist research philosophy and an explanatory research design. The study used balanced panel data from 40 non-financial firms listed at the NSE over the period 2015-2024, generating 400 firm-year observations. Secondary data were obtained from audited annual reports and financial statements of the sampled firms. Descriptive statistics, correlation analysis, the Hausman specification test and random effects panel regression were employed. The Hausman specification test supported the use of the random effects estimator. The findings indicate a positive and statistically significant relationship between earnings persistence and dividend payout. The study concludes that firms with more persistent earnings are more likely to maintain higher and more sustainable dividend payouts. The study recommends that managers strengthen earnings quality by focusing on sustainable operating

performance rather than transitory earnings to support consistent dividend policies and enhance shareholder confidence.

Keywords: Earnings persistence, Earnings quality, Dividend payout

Introduction

According to Truong, Ngo and Huynh (2023), investors in listed companies expect reward in terms of dividends, capital gains or growth in equity investment on the basis of profit retained in the firms for re-investment purposes. Damodaran (2014) categorizes investors in corporate entities as growth-oriented with a focus on capital gains; income oriented with a focus on dividend income or a combination of the two with some degree of appetite for dividend and the rest of the investment being rationalized for dividend income. Dividend is the portion of profit paid out to shareholders as part of the return on their investment. For a company, dividend has implications on cost of capital and the viability of the capital budgeting decisions of the firm.

For income-oriented investors as well as the eclectic ones that have a twin focus on both dividend income and capital gains, dividend policy becomes a great consideration for them and the managers stewarding the investment companies. Dividend policy defines the mechanism by which an organisation structures the dividend it pays out to its ordinary shareholders. It reflects the amount and frequency payable and is often indicated by the dividend paid out per share or the dividend payout ratio (Tahir, Masri & Rahman, 2020). Vernimmen, Quiry and Le Fur (2022) identify critical components of a company's dividend policy as the decision as to whether to pay dividend or not; the proportion of profit to be paid out as dividend; the form in which the dividend should be paid (cash or stocks); the timing of the payment of dividend and the structuring of dividend payment through time.

In the context of this research, the study narrows down to the dividend payment which Vernimmen, Quiry and Le Fur (2022) indicate that it can be 100% payment of profit to dividend (0% retained profit); 100% retention of profit (0% payout) or some form of residual payment where part of the profit is paid out as dividend while the remaining percentage is retained in the business for investment purposes. Kiangi, William and Milamo (2022), explains that management's decision on what portion of profits may be issued to shareholders as dividend payout, particularly the decision on low dividend payout generates more retained earnings that are important in internal financing and investment which reduces dependence on external financing. On the other hand, decision on high dividend payout reduces retained earnings which increase the probability of dependence on external financing.

It is conceivable that dividend policy in general and the dividend payout in particular could be influenced by the quality of corporate earnings which is otherwise called earnings quality. Earnings quality refers to the usefulness of the earnings reported by an entity as the basis of various economic decisions i.e. investing, financing, dividend and liquidity decisions. Earnings quality can be accounting based or market based. The more useful the earnings are in making these decisions, the higher the quality and vice versa (Dechow, Ge & Schrand, 2010). Accounting based earnings quality is based on accounting numbers reported in financial statements while market-based earnings quality reflects how the earnings affect market dynamics of a security such as market pricing, holding period return or even company market capitalization ((Dechow, Ge & Schrand, 2010).

There are various parameters of earnings quality all of which hinge on how reliable, reported earnings can be in terms of projecting future earnings on the basis of which economic decisions can be made by investors. These, according to Dechow, Ge and Schrand (2010) include earnings persistence, earnings predictability, earnings variability, value relevance, earnings smoothness, earnings timeliness, accruals quality and abnormal accruals. In this respect earnings persistence is the sustainability of earnings in successive financial periods as indicated by the slope coefficient of previous period earnings in the autoregressive regression of current earnings on the previous earnings.

Earnings persistence is one of the components of earnings quality. Dechow, Ge and Schrand (2010) describe it as the sustainability or stability of earnings in successive financial periods. It is presumed that investors and other stakeholders use earnings information for making decisions as to whether to investing a firm or not. Persistent earnings are likely to provide a clear picture as to the future earning power of a firm and therefore make estimations of future dividends and capital gains (Damodaran 2014). Indicatively then, persistent earnings reflect a high earnings quality.

Several studies on earnings quality and how it is related to dividend payout have been done across the globe. Mulchandani, Mulchandani and Wason (2020) evaluated the association between dividends and earnings quality for firms listed at the Bombay Stock Exchange. Four aspects of dividend payout were pursued: the payment status; size, persistence and periodic fluctuations in dividends. The sample of 107 firms over a study period of 12 years ending December 2015 yielded 1,284 firm-year observations. The hypotheses tests coefficients were derived for multiple linear regression analysis. The evidence showed that from the dividend payout, the dividend payment status, periodic fluctuations of dividends and the persistence of dividends were positively associated with earnings quality.

On the flipside, the size of dividend paid had no significant association with the quality of earnings of Indian firms listed at the Bombay Stock Exchange.

Rampershad and De Villiers (2019) investigated the relationship between dividend payout and earnings quality using accruals quality as the indicator of earnings quality. The study pursued two aspects of dividend policy being the size of dividends paid and the status of a firm as to whether it pays or does not pay dividends. It was carried out on 2,387 firm year observations over a period of seventeen years. The evidence provided by the study is that there is a positive association between dividend-paying status and accruals quality regardless of the age, capital structure, financial performance, size or growth trajectory of a firm. In addition, there is a positive relationship between the size of the dividends that are paid by South African firms and the level of accruals quality. The higher the dividend payout, the higher the quality of earnings and vice versa.

Vernimmen, Quiry and Le Fur (2022) argue that it has a direct bearing on dividend payout given that retained earnings are less costly than external equity for corporate entities. Using a period of 21 years from 1993 to 2013, the sample size of 38 yielded 798 firm year observations. Their evidence indicated that earnings quality effect on cost of capital varies across segments with the Commercial, Energy, Agricultural and Manufacturing segments posting a positive effect; the Construction segment revealing a negative effect and the Automobiles segment showing no effect. The study also showed that earnings quality in Kenya is relatively poor compared to other stock markets.

Statement of the Problem and Research Objective

Dividend payout decision is one of the most critical corporate policies of business organizations given that it affects both the attractiveness of the companies but also their value in the market place depending on their perspectives about dividend payout and profit retention. In reality, dividend policy is affected by a myriad of factors all of which are uncertain. Ideally, income-oriented investors should be able to predict dividend payout but it has been observed that dividend payout ratios of companies at the NSE have always been fluctuating over time making such predictions difficult for investors and shareholders. The problem arises from the fact that aggregate dividend payout ratios across NSE firms have varied widely year-on-year, with individual company payout percentages ranging from less than 20 per cent to above 90 per cent in some years, and several firms entirely omitting dividends in certain periods, reflecting erratic dividend behavior across the market (Adan & Omagwa, 2018).

The erratic behaviour in dividend payout is further evidenced by research showing that a good number of listed firms at the NSE have not

paid dividends over a number of years whereas others have significantly reduced their dividends per share in successive reporting periods (Adan & Omagwa, 2018). It is always the concern of income-oriented investors as to their ability to predict the dividend policy of the firms they have invested in particularly with respect to the dividend payout. Numerous factors have been identified to influence the dividend policy of corporate entities yet existing theoretical literature and empirical evidence still provides confounding explanations as to the most relevant of these. Although extensive research has examined dividend signaling in developed markets, a significant research gap persists regarding the interaction between dividend policy and corporate earnings quality in emerging and frontier economies. It in this respect is not clear if and how the quality of earnings of a firm influences its dividend payout ratio.

Arising from the statement of the problem, the objective of the study was to evaluate the effect of earnings persistence on dividend payout of non-financial firms quoted at the Nairobi Securities Exchange. It is null hypothesised that Earnings persistence has no significant effect on dividend payout of non-financial firms quoted at the Nairobi Securities Exchange.

Literature Review

The study is based on both theoretical and empirical literature. There are two important theories that guides the study. Firstly, is the agency theory. The Agency Theory was originally formalized by Jensen and Meckling (1976) to explain conflicts between principals (shareholders) and agents (managers) arising from the separation of ownership and control in modern firms. The theory posits that because managers may pursue personal utility over shareholder value, agency costs emerge in the form of inefficient investment decisions, excessive free cash flow consumption, and earnings manipulation (Jensen & Meckling, 1976; TheoryHub, 2025). In the context of dividend policy, the theory suggests that high dividend payouts reduce the amount of free cash flow under managerial control, thereby constraining managers' ability to engage in value-destroying activities and enhancing corporate earnings quality. By distributing cash to shareholders, dividend payments can act as a monitoring device that limits agency conflicts and aligns managerial actions with shareholder interests, which in turn may strengthen the credibility of reported earnings (Information on agency mechanisms; Agency Theory, 2025).

Despite its broad applicability, Agency Theory has been subject to several criticisms. One critique is that the theory tends to depict managers as inherently self-interested opportunists and overlooks the role of ethical behavior, professional norms, and intrinsic motivations that can mitigate agency problems in practice. A significant research gap remains in

integrating Agency Theory with firm-level earnings quality measures and broader institutional contexts, particularly in emerging markets. While the theory predicts that dividend payouts can reduce agency costs and improve earnings quality, few studies explicitly test how different aspects of earnings quality (such as earnings persistence, accrual quality, and earnings predictability) are influenced by governance mechanisms and dividend decisions under varying degrees of agency conflict.

Secondly, is the Signaling Theory. This theory was advanced by Bhattacharya (1979) and further developed by Miller and Rock (1985), explains dividend policy within the context of information asymmetry between corporate managers and external investors. The theory posits that managers possess private information regarding a firm's future earnings and financial sustainability, which is not immediately observable by the market. Consequently, dividend announcements are used as credible signals to convey management's expectations about future profitability (Baker & Weigand, 2015). Firms with high corporate earnings quality are more likely to issue stable or increasing dividends, as reliable earnings support sustainable payout decisions. High-quality earnings enhance the credibility of dividend signals, while poor earnings quality weakens investor confidence in dividend announcements (DeAngelo, DeAngelo, & Skinner, 2020). Agency Theory supports the current study by explaining how dividend payouts can reduce agency conflicts by limiting the free cash flow available to managers and aligning their interests with those of shareholders. In this study, earnings persistence represents the quality and sustainability of reported earnings, which may influence managers' ability and willingness to maintain consistent dividend payments. Therefore, the theory provides a basis for examining whether firms with more persistent earnings are associated with higher dividend payout among non-financial firms listed at the Nairobi Securities Exchange.

Empirical evidence confirms that the application of signaling theory in a firm is closely linked to strong corporate governance and high-quality financial reporting. Salem et al. (2021) empirically assess the relationship between the quality of voluntary disclosure (QVD) and earnings management (EM) and found that broader, more relevant disclosures effectively reduce earnings management, highlighting the importance of qualitative disclosure in ensuring financial reporting integrity (Salem et al., 2021). Evidence has shown that market reacts positively when dividends increase and react negatively with decrease in dividends in support of signaling theory (Amihud & Li, 2002). Quality financial reporting ensures consistency in dividend payout decision changes which convey news regarding future cash flows about the firm (Gabillon & Gabillon, 2012). Signaling Theory supports the current study by explaining that dividend

decisions convey information about a firm's financial prospects to investors. Firms with persistent earnings are more likely to sustain dividend payments, signaling stable future cash flows. Thus, the theory provides a basis for examining the effect of earnings persistence on dividend payout among non-financial firms listed at the Nairobi Securities Exchange.

From the empirical literature perspective, earnings persistence is one of the components of earnings quality. Dechow, Ge and Schrand (2010) describe it as the sustainability or stability of earnings in successive financial periods. It is presumed that investors and other stakeholders use earnings information for making decisions as to whether to investing a firm or not. Persistent earnings are likely to provide a clear picture as to the future earning power of a firm and therefore make estimations of future dividends and capital gains (Damodaran 2014). Indicatively then, persistent earnings reflect a high earnings quality. The measurement of earnings persistence is often indicated by the slope coefficient of previous period earnings in the autoregressive regression of current earnings on the previous earnings (Dechow, Ge & Schrand, 2010).

Several studies have tried to explore how earnings persistence is interrelated with dividend policy. In Indonesia, Indrayati, Rachmat and Slamet (2021) went out to investigate the effect of earnings persistence (among other variables including assets growth, earnings management and investment opportunity set) on dividend policy of baking firms listed at the Indonesia Stock Exchange. Using an explanatory research design, the study was undertaken over a five-year period of January 2015 through December 2019 making up 200 firm-year observations. In this study, structural equation modeling was used to establish variable coefficients for testing the null hypotheses. The study failed to reject the null hypothesis with respect to the earnings persistence variable after finding out that earnings persistence had no significant effect on dividend policy among listed banks in Indonesia.

Li, Jingqi and Chen (2023) sought to find out how earnings persistence, financial performance and cash dividends are related for Chinese publicly listed firms. The study was done over a ten-year period and had a sample size of 872 companies. The null hypothesis with respect to earnings persistence was that it had no significant influence on dividend policy among public firms in China. Dividend policy was indicated by dividend payout ratio and financial analysis was undertaken on quarterly secondary data from published financial information of the sample companies. Financial performance was measured using return on equity while earnings persistence was based on the Ohlson's earnings quality model. Having done the analysis using ARIMA, the study failed to reject the null hypothesis with the finding that there is no significant relationship between earnings persistence and dividend policy as indicated by cash dividend payout ratio.

Deng, Li and Liao (2017) set out to find out how earnings persistence and other aspects of earnings quality (accruals quality and earnings informativeness) were associated with dividend policy as indicated by dividend payout. The study involved 24,874 firm-year observations having been conducted over a period of 16 years covering 1999 through to 2014. The study involved non-financial firms that are publicly listed in China. Regression analysis was used in testing the hypothesis that dividend policy is not significantly associated with earnings quality. The findings revealed that earnings persistence (permanence) is positively associated with dividend payout. The association becomes watered down when the nonfinancial firm has some level of state ownership. State ownership had a negative moderating effect on the relationship between earnings persistence and dividend payout for public non-financial firms in China.

Aguguom, Dada and Nwaobia (2019) examined how earnings persistence was connected to company performance in Nigeria. The research aim was to find evidence from emerging market on value relevance of earnings persistence. Exploratory factor research approach was utilized. The study sampled 55 companies from Nigeria Stock Exchange between 2008 and 2018. Time series modeling was used to measure earnings persistence. The study documented that earnings persistence affected market value in a non-significant negative manner. It was concluded that earnings persistence was not a reliable predictor of EQ. It recommended caution on analysts when evaluating earnings especially when earnings are unstable as this could have negative and misleading implications for valuation.

With reference to Ohlson's model, Li, Jingqi & Chen (2023), optimise earnings persistence model and express earnings persistence measure as a function of return on equity (R.O.E.), dividends payout ratio and other factors. Our theoretical model reveals that dividends payout ratio has little effect on the earnings persistence, while R.O.E. has a decisive effect on earnings persistence. Using quarterly earnings data of 872 listed firms in China over 2011–2020, we calculate the Revised Persistence value of earnings (RPer value) of our earnings persistence model, and find that the Rper value of our model have more explanatory power than that of Kormendi and Lipe's model. Their study also suggests that quarterly earnings are useful and have information content. Both the theoretical model and empirical results of our research are of great significance to understand and support the implementation of semi-compulsory cash dividends rules in China.

Adityanura and Mardijuwonob (2020), analyse corporate earnings persistence and stock returns with firm size, return on assets and dividend payout ratio as control variables. The population in this study comprises manufacturing companies listed on the Indonesia Stock Exchange (IDX) for

the period 2012–16. The research sample was determined using the purposive sampling method. The sample chosen is 34 companies. The data analysis method used is logistic regression analysis using SPSS25. Based on the results of hypothesis, it can be concluded that earnings persistence, return on assets and dividend payout ratio have a positive relationship with stock returns, whereas the size of the company does not have a relationship with the practice of income smoothing. The results of this study indicate that the level of persistence of earnings is related to the rate of return on the stock returns of a company.

Research Methodology

The study adopted a positivist research philosophy which is line with Bell, Bryman and Harley (2022), is also called positivism or a quantitative approach. In line with the recommendations of Bell, Bryman and Harley (2022), this approach is normally adopted when the research meets a number of considerations. Firstly, it must be aligned with the scientific approach to study that follows a logical order of literature review; identification of research gaps; formulation of research hypothesis and objectives; specification of methodology; collection of data; analysis of the same and dissemination of the findings to the wider scientific world for critique and verification. It is this approach adopted in this study, hence the positivist approach. Secondly, Bell, Bryman and Harley (2022) indicate that a positivism research philosophy is appropriate for quantitative research.

The causal quantitative research design was chosen given that the study aims to establish if the quality of earnings of a firm has any causal influence on the dividend policy adopted by such a firm and if the cash flow structure of the firms causes any moderating influence in that relationship. In addition, it provided quantitative data to test if earnings persistence, have any influence on dividend payout. comprised 40 non-financial firms listed at the Nairobi Securities Exchange during the study period. The study covered ten years, from 2015 to 2024, resulting in 400 firm-year observations. Since the study population consisted of 40 firms and the study adopted a census approach, all the 40 firms meeting the study criteria were included in the analysis. In this case no sampling procedures was applied. The study was consequently based on a census of 40 non-financial firms and 400 firm-year observations.

Data is used in the operationalization of study variables and can be primary data or secondary data (Bell, Bryman & Harley, 2022). In this study, data to be used was purely secondary to be gathered from financial statements of listed companies. The first for which data is required is earnings persistence. This variable requires earnings per share (EPS) data. The data was obtained from the statement of comprehensive income. There

are two types of EPS that is basic EPS and diluted EPS (Vernimmen, Quiry & Le Fur, 2022). In this study, basic EPS was used.

The dependent variable of the study relates to dividend payout ratio (DPR). Dividend payout ratio measures the proportion of earnings distributed to shareholders as dividends. The required data were obtained from the audited annual reports and financial statements of the 40 sampled non-financial firms listed at the Nairobi Securities Exchange. The dividend payout ratio was determined using the dividend and earnings information reported in the respective annual reports. The use of DPR provides a measure of the proportion of earnings distributed to shareholders and is therefore consistent with the study objective of examining the effect of earnings persistence on dividend payout.

Bell, Bryman and Harley (2022) identify descriptive statistics as those that provide the nature central tendency, dispersion and distribution of the variables. Apart from the diagnostic tests, the study also test for model suitability and stability using the ANOVA F-test with stability assumed if the regression F is greater than the significance F in line with Bell, Bryman and Harley (2022). In this study, the means of DPR, EPE were used to describe central tendency of the data. With respect to the aspects of distribution, the standard deviations of these indicators were used. As for the distribution of the variables, to supplement the normality diagnostics, distribution measures of Kurtosis (pickiness of the data distribution) and Skewness (spread of the data) were used.

The study adopted a model multiple regression analysis. This is because all the 40 study units will have individual data for all the study years study period (2015 to 2024). When data has both time series and cross-sectional attributes, it is identified as panel data area (Bell, Bryman & Harley, 2022).

$$DPR_{i,t} = \beta_0 + \beta_1 EPE_{i,t} + e_{i,t}$$

Where:

EPE = earnings persistence; DPR = Dividend Payout Ratio

In line with numerous scholars including Khuong et al. (2022), earnings persistence is measured as the beta of the autoregressive model of EPS_t on EPS_{t-1} .

$$EPS_{i,t} = \beta_0 + \beta_1 EPS_{i,t-1} + e_{i,t}$$

EPE was generated for each of the 400 firm-year observations using current earnings per share ($EPS(t)$), *previous-period earnings per share* ($EPS(\{t-1\})$), and the β coefficient from the EPS autoregressive (AR) model. Specifically, EPE was measured using the β coefficient obtained from the autoregressive relationship between $EPS(t)$ and $EPS(\{t-1\})$. The β

coefficient represents the extent to which previous-period earnings explain current-period earnings.

β_1 in this case is identified as EPE that is the extent previous period earnings map into the current earnings which would reflect the extent previous period EPS explain the current period EPS. The higher the β_1 , the greater earnings persistence and higher earnings quality, while a lower or negative β_1 indicates weaker earnings persistence.

Results and Discussions

Descriptive and inferential statistics are evaluated. Descriptive statistics were used to summarize the characteristics of the study variables. Measures of central tendency, specifically the mean and median, were used to describe the typical values of earnings persistence and dividend payout ratio. Standard deviation was used to assess the dispersion of the observations around their respective means. Skewness and kurtosis were used to assess the distributional characteristics of the variables, while the Jarque–Bera test was used as an additional diagnostic for normality. Table 1 shows the descriptive statistics for variables used in the study.

Table 1: Descriptive Statistics

Statistics	EPE	DPR
Mean	2.534016	1.222192
Median	2.760896	1.000000
Maximum	18.97888	5.000000
Minimum	-14.56864	0.000000
Std. Dev.	3.029672	1.165995
Skewness	-0.173354	0.939158
Kurtosis	3.060947	2.941119
Jarque-Bera	0.302961	2.200420
Probability	0.859435	0.332801

From table 1, earnings persistence had a mean value of 2.534016 and a median of 2.760896. The difference between the minimum value of -14.569 and the maximum value of 18.979 coupled with a standard deviation of 3.030, suggests considerable variation in earnings persistence across the 40 non-financial firms. Skewness value was -0.173354 indicates a relatively slight negative asymmetry in the distribution of earnings persistence, while the kurtosis value of 3.060947 is close to the benchmark value of 3. The Jarque-Bera statistic of 0.302961 and its associated probability of 0.859435 indicate that the null hypothesis of normality is not rejected at the 5 per cent significance level. This implies that earnings persistence is normally distributed given that the p-value is greater than 0.05, the critical value at 95% confidence interval.

Dividend payout ratio had a mean of 1.222192 and a median of 1.000. The minimum value of zero indicates that some firms did not pay dividends during the period under study, while the maximum value of 5.000 indicates substantial variation in dividend payout across the firms. The standard deviation of 1.166 reflects considerable dispersion in dividend payout ratio. The skewness was positive with a value of 0.939158 indicates that the distribution is moderately skewed to the right, while the kurtosis value of 2.941 is close to 3. The Jarque- Bera statistic value of 2.20042 and the probability of 0.332801 indicate that the null hypothesis of normality is not rejected at the 5 per cent significance level.

The descriptive findings indicate substantial differences in earnings persistence and dividend payout among non-financial firms listed at the NSE. The variation in earnings persistence suggests that firms differ considerably in the sustainability and predictability of their earnings, which may influence their capacity to maintain dividend payments. The results further indicate that although most firms pay dividends, the level of payout varies considerably across firms. Overall, the findings provide a basis for examining whether differences in earnings persistence significantly explain variations in dividend payout among listed non-financial firms.

Inferentially, both correlation and regression analysis were undertaken. The correlation findings are presented in Table 2.

Table 2: Correlation Analysis Statistical Output

	<i>DPR</i>	<i>EPE</i>
DPR	1.000	0.39876**
EPE	0.39876**	1.000

The correlation results in Table 2 indicate a positive correlation between earnings persistence (EPE) and dividend payout ratio (DPR), with a Pearson correlation coefficient of 0.39876. Bijma et al. (2025) recognizes that Pearson's correlation coefficient ranges from -1 to +1 and that values between 0.4 and 0.59 reflect moderate correlation. Accordingly, this study finds that there is a moderate correlation between dividend payout and earnings persistence. High levels of earnings persistence correspond with moderate variations in dividend payout ratio for companies listed at the NSE especially the non-financial ones.

The findings that EPE has a moderate association with DPR can however be favorably compared with the study undertaken by Deng, Li and Liao (2017) who compared earnings persistence and other aspects of earnings quality with dividend policy as indicated by dividend payout for non-financial public Chinese firms over the period 1999 through to 2014. The findings revealed that earnings persistence (permanence) is positively associated with dividend payout ratio just as is the case of non-financial

firms at NSE. This seeming convergence could stem from the fact that both of these two studies at NSE and in China focused on non-financial firms.

Before regression analysis model specification was undertaken, as recommended by Hansen (2022) Hausman model specification test was conducted to determine whether the fixed effects (FE) or random effects (RE) estimator was appropriate for the panel regression. The null hypothesis in this case is that RE is consistent and no correlation exists between unobserved effects and regressors. If p-value is less than 0.05, the null hypothesis is rejected and fixed effects model is used, otherwise the random effects model is adopted (Hansen, 2022). The model testing results for the various bivariate models for the study are specified in table 3.

Table 3: Bivariate Panel Model Specification Test Results

Hausman Specification Test			
Cross-sectional Units =40			
Time-series length =10			
Dependent variable: DPR			
Model	Chi-Square	P-value	Model Selection
EPE	1.63473	0.20105	RE

As shown in table 3, the Hausman test produced a Chi squares statistic of 1.63473 with a p-value of 0.20105. Considering the p-values was greater than 0.05, the null hypothesis was not rejected. Therefore, the random effects model was considered appropriate for estimating the relationship between earnings persistence and dividend payout ratio (Hansen, 2022).

The bivariate panel regression results of DPR, EPE are reflected in table 4.

Table 4: DPR on EPE Panel Regression Model Parameters

DPR on EPE Regression Statistics	
Cross-sectional units → 40	
Time-series length →10	
Multiple R	0.398760
R Square	0.159010
Adjusted R Square	0.156898
F- Statistics	75.2515
ANOVA Significance F	< 0.0001
Observations (df=400)	400

The ANOVA results in table 4 reveal that the regression model is statistically significant at the 5 per cent level. The model reports an F-statistics of 75.2515 with an associated significance probability < 0.0001. The ANOVA results indicate that the regression model is statistically significant since the p-value of < 0.0001 is less than the 0.05 level of significance and therefore the null hypothesis that the regression model does

not significantly explain variations in dividend payout ratio is hereby rejected. In line with Hinton (2024) this implies that the model is suitable for analysis of the relationship between earnings persistence (EPE) and dividend payout ratio (DPR). The multiple R value of 0.398760 indicates a positive association between the variables while the R-square of 0.159010 shows that 15.9% of the changes in DPR are occasioned by changes in EPE with the rest of the changes outside the model.

Table 5: Random Effects Panel Regression Output of DPR on EPE

Random Effects Panel Regression, using 400 observations				
Cross-sectional units → 40				
Time-series length →10				
Dependent variable: DPR				
	Coefficient	Std Error	t-ratio	p-value
Const.	0.039128	0.019763	1.979863	0.048407**
EPE	1.430060	0.078210	18.284950	<0.0001***

The random effects panel regression of DPR on EPE has the output reflected in Table 5. The null hypothesis established earlier was that EPE has no significant influence on DPR for non-financial companies listed at the Nairobi Securities Exchange. The findings reveal that EPE has a coefficient of 1.43006 with a t-ratio of 18.28495 and a p-value that is less than 0.0001. Using the t-value at 95% confidence interval, the critical t is 1.9659 and since the regression t is greater than the critical t, the null hypothesis is rejected as confirmed by the EPE coefficient whose p-value is less than 0.05. It is therefore concluded that EPE has a positive effect on dividend payout by non-financial firms listed at the NSE.

The findings that earnings persistence has a positive influence on dividend payout is in line with signaling theory of Bhattacharya (1979) which would conclude that persistence is earnings as a parameter of earnings quality is a signal for assured earnings in future and therefore assured dividends. It is this that leads earnings persistence to be a positive predictor of dividends. It is also in line with Clientele' effect theory of Pettit (1977) which in the context of the study, investors in the company would have reached an equilibrium about earnings persistence and the attendant dividend expectations. From an empirical perspective, the findings are in contradiction of that of Li, Jingqi and Chen (2023) who using 872 publicly listed firms in China over the period 2011 to 2020 found that earnings persistence and dividend payout ratio had no significant association.

Summary, Conclusion and Recommendations

The study examined the effect of earnings persistence on dividend payout among 40 non-financial firms listed at the Nairobi Securities Exchange over the period 2015–2024. The study was based on 400 firm-year

observations. Descriptive statistics showed that earnings persistence had a relatively high mean value, indicating that many firms generated earnings that were sustainable over time. However, considerable variation existed across firms, suggesting differences in the stability and quality of reported earnings. The Hausman specification test indicated that the random effects model was appropriate for analysis.

The random effects regression results showed that earnings persistence had a positive and statistically significant effect on dividend payout ratio. The positive coefficient suggests that firms with more persistent and sustainable earnings tend to distribute a higher proportion of their earnings to shareholders. These findings support the argument that persistent earnings provide management with greater confidence regarding future profitability and cash-generating capacity, thereby encouraging stable dividend payments. The findings are also consistent with signaling theory, which suggests that firms use dividend payments to signal confidence about future earnings prospects to investors.

The study concludes that earnings persistence is a significant determinant of dividend payout among non-financial firms listed at the Nairobi Securities Exchange. Firms that consistently generate sustainable earnings over successive financial periods are more likely to distribute dividends to shareholders than firms whose earnings fluctuate considerably. Persistent earnings provide management with confidence that future profits will be sufficient to sustain dividend payments without compromising operational liquidity or investment opportunities.

The findings further imply that investors in the Nairobi Securities Exchange perceive persistent earnings as an indication of lower business risk and greater financial stability. Since dividend payments represent a long-term commitment to shareholders, management is more willing to declare and maintain dividends when current earnings are expected to continue into future periods. This demonstrates that dividend decisions among listed non-financial firms may be influenced by the sustainability of earnings as well as by temporary or transitory profitability.

From a theoretical perspective, the findings provide strong support for the Signaling Theory, which argues that managers use dividend payments to communicate favourable information regarding future prospects to investors. Persistent earnings provide credible signals that future profitability will remain stable, thereby reducing information asymmetry between managers and shareholders.

The study established that earnings persistence positively influences dividend payout based on these findings, several policy recommendations are proposed.

First, the Capital Markets Authority (CMA) should strengthen regulatory guidelines on earnings quality reporting by requiring listed firms to provide enhanced disclosures on the sustainability, persistence of earnings. Such disclosures would improve the transparency of financial reporting, reduce information asymmetry, and enable investors to make informed investment decisions based on the quality rather than merely the magnitude of reported earnings.

Second, the Nairobi Securities Exchange (NSE) should encourage listed firms to adopt integrated financial reporting frameworks that combine earnings information with detailed cash flow disclosures. Since the study established that cash flow structure significantly enhances dividend-paying capacity, investors require sufficient information on firms' operating cash flows to accurately assess the sustainability of future dividend payments.

Third, investors and shareholders should consider earnings persistence when assessing the sustainability of dividend payments. Rather than relying solely on the current level of reported profits or dividends, investors should examine whether reported earnings are sufficiently persistent to support future dividend distributions.

Finally, the study recommends that future researchers should examine earnings persistence together with other dimensions of earnings quality and additional firm-specific factors that may influence dividend payout among listed firms in Kenya.

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