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Abstract

This study examined the mediating role of dividend policy in the relationship between firm liquidity and firm value among firms listed on the Nairobi Securities Exchange (NSE). Although liquidity is widely recognized as a key driver of firm value, it remains unclear whether dividend policy intervenes in this relationship, particularly in emerging markets. Guided by the Dividend Signaling Theory, the study tested whether dividend payments, dividend yield, or a composite dividend measure mediated the effect of liquidity on firm value. A descriptive longitudinal research design was employed, analyzing panel data from 63 NSE-listed firms over a 15-year period (2007–2022). Liquidity was measured using a composite index of short-term liquidity, debt capacity, and asset convertibility, while firm value was assessed using Tobin's Q. Dividend policy was operationalized through dividend payout ratio, dividend yield, and their composite average. The Baron and Kenny four-step regression approach, supported by the Sobel test, was used for mediation analysis. The findings confirmed a strong, positive, and significant direct relationship between firm liquidity and firm value. However, none of the dividend policy measures significantly mediated this relationship. These results challenge the applicability of the Dividend Signaling Theory in the Kenyan capital market, suggesting that investors may rely more on other financial indicators than dividend signals. The study recommends that firms focus on sound liquidity management rather than dividend signaling to drive value. Further research is needed to explore sector-specific dynamics and alternative intervening variables.

Keywords: *Firm Liquidity, Dividend Policy, Firm Value, Nairobi Securities Exchange, Dividend Signaling Theory, Mediation Analysis.*

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1. INTRODUCTION

Dividend policy remains one of the most important topics afield in corporate finance that refers to the way and time of payment to shareholders. It acts as an important tool for announcing firm's stability, allocating residual profits, and influencing the expectations of investors (Baker et al., 2012). Pivotal to this policy however is the liquidity position of the firm since dividends are paid out in cash or other sources that are readily repayable. Consistent dividend payments come from firms with enough liquidity, which means that firms with adequate liquidity can maintain consistent and signal that their operation is profitability and stable (Bhattacharya, 1979; Denis & Osobov, 2008). From prior literature, there is inconclusive evidence on the relationship between dividend policy and firm value. For instance, Amidu and Abor (2006) concluded that, the firms that are listed in the Ghana stock exchange have value if they offer high rates of dividend payout. Furthermore, continued from Al-Kuwari (2009) and Aivazian, Booth, and Cleary (2003) the research that was done in the emerging as well as the developed market. However, Kapoor (2006) and Nissim and Ziv (2001) pointed out partially or less supportive evidence that suggests that contextual, firm related or market conditions may either mitigate or enhance this effect.

Liquidity which is the ability of a firm to pay for its short term liabilities is a critical concept in the financing decision especially in the area of dividend policy. Consistent with the pecking order theory as propagated by Myers and Majluf (1984), firms would rather opt for internal funds and only turn to external funds, meaning that high liquidity increases the ability and the options of dividend payout. However, dividend policy can either amplify or be a moderator variable to the interdependence between liquidity and the companies' values. Companies with high liquidity may choose to pay out more of their earnings through dividends which enhances investor's perception, hence, increasing market ranking (Lintner, 1956; Brav et al., 2005). According to Al-Shubiri (2011) and Anton (2016) there is an implication of the following empirical evidence that dividend policy does not only indicate the liquidity concern but is a proactive tool that can either reinforce or undermine the role of cash on value of enterprises under consideration of consistency, yield, and signaling dimension. In addition, Malik and Maqsood (2015) show that both the dividend payout ratios and the dividend yields are significant measures of corporate performance and investors' confidence especially in the unstable or shallow markets.

Liquidity and firm value are hypothesized to be moderated through dividend policy in a theoretically sound an empirically justified way. Dividend policy can enhance the liquidity strength in firm value or may possibly harm it when dividend is considered to be optically wrong or unsustainable. Therefore, the following measures were used as the index; Payout ratio, Dividend yield, and the average of the two. These were useful in establishing the role of dividend policy in moderating the impact of liquidity on firms' value among firms listed at NSE. Investigating this relationship offered the insight needed to approach the management of corporate finances in developing nations, which have their features regarding these aspects of liquidity and investor priorities and their impact on the dividend/value equation.

2. RESEARCH PROBLEM

Liquidity has been measured and analyzed to have a correlation with the firm valuation in the different field of corporate finance; the conventional theory proved that the increase in the level of liquidity always have positive impacts such as flexibility, the decrease of the financial risk of distress and overall improvement of the firm valuation (Alvarez & Argente, 2022;

Megginson et al., 2021). However, the direction of this relationship and the role played by dividend policy have been a subject of controversy. According to the classic theory, dividends are a signalling tool that informs investors about a firm's solvency and stability (Baker & Powell, 2012), but there seems to be a mixed evidence on the moderation of liquidity and firm value. According to some international studies, dividend payments help to strengthen the relationship between liquidity and firm value by indicating the efficient use of capital and investors' confidence (Tran & Ramakrishnan, 2022; Dhaliwal et al., 2020), whereas others maintain that the role of dividend is unhelpful or weak when value is considered in view of such factors as earnings, prospects, and capital structure (González et al., 2019). This divergence of findings emphasizes the need for more context analysis in emerging economy where the characteristics of the market and the behavior of investors may affect the movement of dividend-value relation.

Due to its location, Kenyan firms in the NSE are in a capital market that experiences moderate market liquidity and investors' sophistication levels while experiencing reforms. Consequently, there is limited evidence on the moderating effect of dividend policy on the relationship between liquidity levels and firms' value in this specific context. Mutua (2021) and Karani and Abok (2020) capture the effect of dividends on firm performance, yet they fail to go further and analyze how they act as moderator in the liquidity-value relationship. The situation with NSE-listed firms in terms of size, specialization, and access to liquidity enhances the challenges associated with the dividend issue and therefore presents a good environment to test the existence of this relation. This study, therefore, aims to bridge this empirical gap by analyzing how dividend policy, measured through payout ratio and dividend yield, intervenes in the liquidity, firm value relationship among firms listed on the NSE, offering insights that may not only clarify global theoretical debates but also inform dividend strategies within frontier markets.

3. OBJECTIVES

The objectives of the study were:

- (i) To determine the intervening effect of dividends paid on the correlation between liquidity (L) and firm value (Tobin's Q) of NSE-listed companies.
- (ii) To determine the intervening effect of the share paid as dividends ratio on the relationship between liquidity (L) and firm value (Tobin's Q) of NSE-listed companies.
- (iii) To determine the overall intervening effect of dividend policy on the firm value (Tobin's Q) and liquidity (L) relationship of firms listed at NSE.

4. LITERATURE REVIEW

This study is based on the Dividend Signaling Theory, which was first put forth by Lintner in 1956 and then expanded upon by Ross in 1977. According to this theory, changes in dividend payouts are intentional managerial indicators of how well a company will perform in the future. Based on the asymmetry of information between investors and management, the theory posits that managers utilize dividend announcements to share confidential information about the firm's financial stability and profitability (Bhattacharya, 1979; John & Williams, 1985). In contexts where liquidity is strong, firms are more likely to sustain or increase dividends, signaling confidence in future cash flows and thereby enhancing investor perception and firm value (Miller & Rock, 1985). The concept is still particularly valuable in developing markets like Kenya, where market inefficiencies increase the significance of dividend cues, despite criticisms such those made by DeAngelo (1995), who emphasized the limitations of dividend

fluctuations being reliable indicators in contemporary markets. This theory supports the notion that dividend policy may act as a communication tool that influences market expectations and valuations, thereby intervening in the relationship between liquidity and firm value for companies listed on the Nairobi Securities Exchange, where transparency and investor confidence are crucial.

The literature review of the articles on countries in the African region, Kenya, and other nations indicates that there is some evidence squarely supporting the application of the dividend policy in controlling the volatility of value-liquidity. After it was discovered that business value increases with liquidity, some studies support the notion that dividend policy impacts this relation positively. Anton (2016) showed that dividend payout ratios have a significant positive impact on company value using the cross-sectional regression on a sample of the Romanian listed companies. Consequently, dividend policy can be utilised to get some insights into how liquidity can be utilised to increase the wealth of the shareholders. On the same note, Van Zyl's (2018) study on structural equation modeling supported how dividends acted as a mediator in the positive effect that financial performance, which has a clear linkage with the concept of liquidity, has on the valuation of firms in the mining industry of South Africa. This is in line with the study by Adekoya and Oboh (2020) who affirmed the intervening role of dividend policy by showing that it greatly modified the impact of liquidity on firm value while researching Nigerian financial institutions. Similar findings were obtained by Mwangi and Kimani (2021) and Omondi and Oluoch (2019) in the Kenyan context: dividend policy increases firm value, albeit to differing degrees depending on the sector. In this respect, the liquidity and profitability are useful in the improvement of the firm value.

However, the findings on the role that the dividend policy plays in moderating the risk are not conclusive. In their cross-sectional analysis of United Kingdom, Harper and Green (2019) pointed out that despite the structural positive effect of dividend policies on firm valuation, the effect varies across the different business sectors. However, Omondi and Oluoch (2019) found a mixed result on the role of dividend policy as a moderator, which means that the liquidity-firm value is good but not entirely. Additionally, while Boateng and Agyei (2021) established that there is an enhanced firm value when managing liquidity in Ghana's telecom industry; this study failed to consider the 'dividend policy' as a mediating factor – which constitutes a theoretical gap. Johnson and Soenen (2017) also focused on liquidity and profitability as the value driver of manufacturing firm in the United States but excluded dividend policy as a moderator. These gaps meant there was a need to extend the analysis of liquidity, firm value, and the dividend policy variables more comprehensively.

These gaps are in terms of the concepts used and the context of the studies between the previous studies. Some of these are, for instance, the stability of dividends by Kamau & Ngugi, 2020 that did not capture the compound nature of the policy while El-Masry and Abdel-Salam (2018) focused on cash flow consistency for instance. Moreover, it is also important to note that many of the studies are done within a certain sector or on large firms only as indicated by El-Masry and Abdel-Salam (2018) and Harper and Green (2019). These were addressed in the current study by using a diversified approach of Dividend policy; Payout ratio, Dividend yield index, as well as the use of the Composite index while analyzing its mediating effect of the liquidity–firm value link across the various business sectors listing in the NSE, which has helped in eliminating the said empirical and methodological gap that is common with the Kenyan emergent market where the dividend policy has a profound communicative and strategic implication.

5. METHODOLOGY

The research philosophy applied in this study was positivism research philosophy due to its focus on measurable variables. As a result of this, positivism was relevant since the research aimed at testing relationships between financial variables using empirical data gotten from audited financial statements of listed firms. In the current study, the research design adopted was the descriptive longitudinal research design that facilitated the evaluation of the impact of dividend policy and liquidity on the firm value through the use of firm-level data over the period of fifteen years (2007-2022).

As of December 31, 2022, all 63 companies listed on the Nairobi Securities Exchange (NSE) were included in the target population. Since the population was manageable and thorough insights were required, a census approach was used to include all companies. Secondary quantitative data was collected from audited financial statements accessed via firm websites and the NSE portal, ensuring data credibility and standardization.

5.1 Operationalization of Variables

- Firm liquidity (independent variable) was operationalized using three measures: current ratio, debt capacity, and cash to current assets, with a composite liquidity index computed as their average.
- Dividend policy (intervening variable) was measured using dividend payout ratio and dividend yield, and an overall composite dividend policy metric was computed as the average of the two.
- Firm value (dependent variable) was measured using Tobin's Q ratio, adopted from Chung and Pruitt (1994).

5.2 Analytical Approach

The study used the four-step regression method developed by Baron and Kenny (1986) to evaluate the intervening influence of dividend policy on the connection between liquidity and firm value. The Sobel test was used to confirm statistical mediation.

- Step 1: Regression of firm value on liquidity.
- Step 2: Regression of dividend policy (payout, yield, composite) on liquidity.
- Step 3: Regression of firm value on both liquidity and dividend policy.
- Step 4: Sobel test using coefficients and standard errors from Steps 2 and 3.

The significance of the mediating effect was determined by comparing the calculated Z-value from the Sobel test against the standard threshold of 1.96 ($p < 0.05$). Statistical analysis was conducted using Stata.

5.3 Diagnostic Tests

Key diagnostic tests were conducted to ensure validity of panel regression modeling, including:

- Modified Wald test for heteroscedasticity
- Wooldridge test for autocorrelation
- Pesaran's test for cross-sectional dependence

- Variance Inflation Factor (VIF) for multicollinearity
- Augmented Dickey-Fuller (ADF) test for unit roots
- Engle-Granger test for co-integration
- Hausman test to determine between fixed and random effects

These tests ensured the robustness and appropriateness of the regression models used in evaluating the intervening role of dividend policy.

6. KEY RESULTS AND FINDINGS

This section presents the core empirical results of the study, beginning with descriptive statistics that summarize the central tendencies and variability of the key study variables: firm liquidity, dividend policy, and firm value. The analysis then reports the outcomes of essential diagnostic tests that were conducted to validate the assumptions of the panel regression model. These tests evaluated issues such as heteroskedasticity, autocorrelation, cross-sectional dependence, multicollinearity, stationarity, and model suitability, ensuring robustness and reliability of the inferential statistics used to evaluate the mediating effect of dividend policy.

6.1 Descriptive Statistics Summary

The descriptive statistics reveal the underlying patterns in the key study variables over the 15-year panel dataset comprising 817 valid observations across 63 NSE-listed firms as indicated in Table 1 below.

Table 1: Descriptive Statistics

Variable		N	Range	Minimum	Maximum	Mean	Std Deviation	Variance	Skewness	Kurtosis
Liquidity	Short term liquidity	912	1.388	-.156	1.232	.4722369	.2659833	.0707	.1811	2.470
	Assets convertibility	912	.3454	.0212	.3666	.1885	.0986	.0097	.095	1.827
	New debt liquidity	912	1.054	-.0666	.9878	.3904	.2097	.0440	.197	2.45
	Composite Liquidity	912	0.929	-0.0678	0.8622	0.350379	0.191427	0.0368	0.1577	2.249
Dividend policy	Amount of dividend payments	912	1.194	.0014	1.1962	.414620	.2770193	.077	.212	-.160
	Dividend Yield	912	.1470	.0242	.1228	.048661	.0312696	.001	-.021	-.646
	Composite Dividend	912	0.671	0.0128	0.6595	0.231641	0.154145	0.0238	0.0955	-0.403
Firm Value	Q Ratio	912	3.897	.0403	3.9378	1.568589	.8152096	.665	.215	-.591

- **Firm Liquidity** (Composite): Mean = 0.3504, Std Dev = 0.1914, Skewness = 0.1577, Kurtosis = 2.249. This suggests a moderate liquidity position among firms, with slight right-skew indicating some firms had relatively stronger liquidity.
- **Dividend Policy** (Composite): Mean = 0.2316, Std Dev = 0.1541, Skewness = 0.0955, Kurtosis = -0.403. The low dividend payout and slightly platykurtic distribution indicate modest and consistent dividend practices across the sample.

- **Firm Value (Q Ratio):** Mean = 1.5686, Std Dev = 0.8152, Skewness = 0.215, Kurtosis = -0.591. The positive mean above 1 implies that most firms are valued higher than their book value, indicating favorable investor expectations.

These descriptive patterns suggest considerable variation across firms in terms of liquidity and dividend practices, with a generally optimistic valuation profile.

6.2 Summary of Diagnostic Tests and Model Validity

The study conducted several statistical diagnostics to ensure the appropriateness of the panel regression approach and the accuracy of inferential conclusions:

1. **Poolability Test (Chow Test)**
 - $F = 5.43, p = 0.000$: Rejected the null hypothesis. Indicates pooled OLS is inappropriate, supporting the use of panel-based models (fixed or random effects).
2. **Heteroskedasticity (Modified Wald Test)**
 - $\chi^2(62) = 154.70, p = 0.0000$: Significant evidence of groupwise heteroskedasticity. The study corrected for this using robust and clustered standard errors.
3. **Autocorrelation (Wooldridge Test)**
 - $F = 3.881, p = 0.0534$: Failed to reject the null hypothesis, indicating no first-order autocorrelation within firms.
4. **Cross-Sectional Dependence (Pesaran's Test)**
 - $Statistic = 2.272, p = 0.0231$: Detected significant cross-sectional dependence. Robust and clustered standard errors were adopted to mitigate its effects.
5. **Hausman Test**
 - $\chi^2(7) = 94.20, p = 0.0000$: Rejected the null hypothesis. Confirmed the fixed-effects model is preferred over random-effects, validating the model choice for analysis.
6. **Multicollinearity (VIF Test)**
 - $Mean VIF = 2.61$; all $VIFs < 10$: No harmful multicollinearity among independent variables. Regression estimates are interpretable and reliable.
7. **Stationarity (ADF Test)**
 - $All variables: p < 0.000$: Rejected the presence of unit roots, confirming stationarity and reducing the risk of spurious regression.
8. **Co-integration**
 - Not conducted as all variables were stationary. No long-term equilibrium modeling (e.g., error correction) was necessary.

These diagnostic tests confirmed that the panel dataset satisfied key statistical assumptions. The fixed-effects model with robust and clustered standard errors was selected as the most appropriate model for examining the intervening effect of dividend policy on the relationship between liquidity and firm value.

6.3 Mediation Analysis: Testing the Intervening Effect of Dividend Policy

This section evaluates the mediating role of dividend policy on the relationship between firm liquidity and firm value (Tobin's Q), using the four-step approach proposed by Baron and Kenny (1986) and the Sobel test for statistical confirmation. Dividend policy was measured using (i) amount of dividends paid, (ii) dividend yield, and (iii) a composite dividend index. These three measures reflect the study's three key objectives. The steps are as follows:

1) *Objective (i): To determine the intervening effect of dividend paid on the relationship between liquidity and firm value*

The first analysis focused on whether the amount of dividends paid mediates the relationship between firm liquidity and firm value. The following results were obtained as indicated in Table 2.

Table 2: Baron and Kenny Mediation Steps – Dividend Paid

Step	Purpose	Findings	Conclusion
1	Test direct relationship between liquidity and firm value	$\beta = 0.962$, $p = 0.000$; $SE = 0.014$; $R^2 = 0.9746$	Significant positive effect of liquidity on firm value
2	Test effect of liquidity on dividend paid	$\beta = 0.0026$, $p = 0.858$; $SE = 0.0145$; $R^2 = 0.0037$	Liquidity does not significantly affect dividend paid
3	Test joint effect of liquidity and dividend paid on firm value	Dividend paid: $\beta = -0.0192$, $p = 0.455$; $R^2 = 0.9745$	Dividend paid is not significant; liquidity remains significant
4	Sobel test	$Z = -0.1746$	$Z < 1.96 \rightarrow$ No significant mediation

Table 2 therefore indicates that the amount of dividends paid does not mediate the relationship between liquidity and firm value for firms listed at NSE.

2) *Objective (ii): To determine the intervening effect of dividend yield on the relationship between liquidity and firm value*

The second analysis tested whether dividend yield serves as a mediator in the liquidity–firm value relationship. This is also presented in Table 3.

Table 3: Baron and Kenny Mediation Steps – Dividend Yield

Step	Purpose	Findings	Conclusion
1	Test direct relationship between liquidity and firm value	$\beta = 0.962$, $p = 0.000$; $SE = 0.014$; $R^2 = 0.9746$	Significant positive effect of liquidity on firm value
2	Test effect of liquidity on dividend yield	$\beta = 0.0015$, $p = 0.251$; $SE = 0.0013$; $R^2 = 0.0070$	Liquidity does not significantly affect dividend yield
3	Test joint effect of liquidity and dividend yield on firm value	Dividend yield: $\beta = 0.1806$, $p = 0.346$; $SE = 0.1902$; $R^2 = 0.9746$	Dividend yield is not significant
4	Sobel test	$Z = 0.7345$	$Z < 1.96 \rightarrow$ No significant mediation

Table 3 led the study to conclude that dividend yield does not mediate the relationship between firm liquidity and firm value for firms listed at NSE.

3) *Objective (iii): To determine the overall intervening effect of dividend policy on the relationship between liquidity and firm value*

To examine the overall mediating role of dividend policy, a composite dividend measure (average of dividend paid and dividend yield) was analyzed. The same procedure was followed.

Sobel Test for Composite Dividend Policy

- Coefficient (a) of liquidity on composite dividend: **0.0020712**
- Coefficient (b) of composite dividend on firm value: **-0.03268**
- Standard Error a (SEa): **0.007517**
- Standard Error b (SEb): **0.0491172**
- **Sobel Z = -0.2545**

The study also concluded that composite dividend policy measure does not significantly mediate the relationship between firm liquidity and firm value.

Table 4: Summary of Mediation Results for Dividend Policy

Dividend Policy Measure	Liquidity → Mediator (Step 2)	Mediator → Firm Value (Step 3)	Sobel Z	Mediation Conclusion
Dividend Paid	Not Significant (p = 0.858)	Not Significant (p = 0.455)	-0.1746	No Mediation
Dividend Yield	Not Significant (p = 0.251)	Not Significant (p = 0.346)	0.7345	No Mediation
Composite Dividend	Not Significant (a & b)	Not Significant	-0.2545	No Mediation

4) *Final Interpretation and Conclusion*

Across all three models—dividend paid, dividend yield, and composite dividend—**dividend policy did not meet the conditions to be a mediator** in the relationship between firm liquidity and firm value for NSE-listed firms. Although firm liquidity consistently exhibited a strong and significant direct effect on firm value, the paths through dividend policy components were **statistically insignificant**, and **Sobel tests confirmed no mediation**.

Hence, the **null hypothesis (H2)** and its sub-hypotheses **H2(a)** and **H2(b)** that *dividend policy does not significantly intervene in the relationship between liquidity and firm value* are **not rejected**. These results suggest that dividend policy does not play an intervening role in explaining how liquidity translates to higher firm value in the NSE context. Future research may explore alternative roles of dividend policy, such as a moderator or contextual factor influenced by industry or ownership structure.

The findings of the present study challenge the core proposition of Dividend Signalling Theory in the context of firms listed on the Nairobi Securities Exchange. Despite the theory’s assertion that dividend policy can signal firm strength to investors and enhance firm value, particularly when liquidity is strong, the results demonstrated that neither the amount of dividends paid,

dividend yield, nor their composite measure significantly mediated the relationship between liquidity and firm value. This implies that within the preparation and context of the Kenyan capital market, the notion of dividend policy may not be able to offer a premise for the process of managerial signaling. This could be due to lower investor expectations, low fluctuation in dividends, or because there are other methods of gauging the performance of the company such as the earnings reports. Thus, by showing that the signaling effectiveness of dividends can be diminished or contextually limited in the emerging markets of Kenya, the study adds more layers to the existing theories such as the Dividend Signalling Theory. This implies that in the Kenyan capital market dividend policy could not play the role of signaling to the management. This could be so due to lack of investor confidence, low volatility of dividends, or there are other ways used more often to evaluate the performance of the company, such as earnings.

These findings therefore offer an empirical support to the studies conducted by Anton (2016), Adekoya & Oboh (2020) and Mwangi & Kimani (2021) that showed that dividend policy fully moderated the link between liquidity and business value. This implies that, among NSE-listed firms, this study has not identified a role for mediation in the relationship between dividend policies with the direct and important link between liquidity and firm value. This is in keeping with Harper and Green (2019) and Omondi and Oluoch (2019) who looked at the hypothesis of whether the mediating role of dividend policy is consistent across industries and circumstances. This might be due to market fluctuations in Kenya, governance procedures of firms, or the somewhat liquid conservative policy of dividends in this dataset in comparison to previous studies.

7. SUMMARY

The purpose of the study was to establish how dividend policy enhances or hampers the linkage between value and liquidity on the firms listed in NSE. The study further evaluated the mediating effects of dividend yield and dividend payments as two aspects of dividend policy, and a composite measure of dividend policy using Sobel test and Baron and Kenny (1986) four-step test. The regression analysis hence showed that there was a positive, direct, and statistically significant relationship between business value and liquidity supporting the assertion that liquidity was a considerable determinant of firm performance. But the findings indicated that there is no significant correlation between liquidity and firms' value or the worth of the company by the payment of dividends, dividend yield, or the composite measure of dividends. Pertaining to the Sobel test, it also generally supported the non-presence of a significant mediation effect in all the cases.

Contrary to the Dividend Signalling Theory proposed by Miller & Rock in 1985, dividends are indeed an accurate measure of a company's performance and the possibility for its future growth. Based on the observation of the Kenyan market, it is evident that this theory has not been actualized for the view that dividend policy does not reflect firm value through liquidity in Kenyan firms although several empirical evidences from the different emerging and developed countries such as those of Anton (2016), Adekoya and Oboh (2020), Mwangi and Kimani (2021) have provided recognition for the theory. These could be due to a number of reasons; differences in investors income status, firm behaviour on payout policies or market anomalies that originate from other markets as distinct from the focus of this study, which is NSE. In sum, it reminds of the importance of reconsidering such factor for the generalizable dividend signaling mechanisms in frontier markets' other indicators that may be more important for investors' perception and firms' evaluation in future.

8. CONCLUSION

The study aimed at analyzing the role that the dividend policy plays in explaining the relationship between firm value and firm liquidity of firms listed at the NSE. The value of the company was found to be strongly and statistically significantly positively impacted by business liquidity, particularly short-term liquidity and new loan capacity. However, dividend policy did not demonstrate a significant mediating effect. Neither dividend yield nor the amount paid, nor their composite measure, substantially changed the direction or strength of the liquidity-value relationship. In the context of the Kenyan capital market, these results contradict the expectations of the Dividend Signaling Theory, indicating that investors may interpret dividend signals differently or with less relevance in this scenario. The study therefore concludes that, although liquidity is a crucial determinant of firm value, dividend policy does not serve as a meaningful intermediary in this relationship for NSE-listed firms.

9. RECOMMENDATIONS

For Practice and Policy: As a direct way to increase company value, companies listed on the NSE should give priority to improving their liquidity management techniques. Instead of depending only on dividend payments to indicate financial health, corporate managers should prioritize maximizing cash flow, preserving solvency, and utilizing advantageous debt situations. To help investors make better-informed valuation judgments, regulatory agencies like the Capital Markets Authority (CMA) ought to think about providing rules and guidelines that encourage financial transparency, particularly about liquidity measurements.

For Policymakers and Corporate Boards: Although dividend policy is still a significant factor in shareholder returns, this analysis raises the possibility that its signaling effectiveness may be constrained in the setting of the NSE. Policymakers and corporate boards should link payout policies with long-term investment and liquidity situations rather than overemphasizing dividend payouts as a value-enhancement tactic. Market efficiency and investor trust can be improved by policies that promote thorough disclosure of financial measures, including non-dividend indications of company success.

For Further Research: Future studies should look at sector-specific dynamics since the effect of dividend policy will vary across industries. Addition of qualitative data, such as investors' perception questionnaires or financial managers' responses through interviews, would shed light on why dividend signals in the NSE context can be weak or irrelevant. Comparative examinations across African markets or using other mediating or moderating variables (e.g., corporate governance or capital structure) may be able to throw additional light on the varied channels by which liquidity impacts firm value.

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