EFFECTS OF DIVIDEND POLICY ON FINANCIAL PERFORMANCE OF LISTED COMMERCIAL BANKS IN KENYA

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DECLARATION

This research project is my original work and has not been presented for an award of a degree in any other university or institution of learning.

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This project is submitted for examination with my approval as authorized university supervisor.

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I wish to acknowledge my classmates for teamwork in carrying out group assignment that resulted to completing the entire course successfully.
DEDICATION

I dedicate this research to my mother for giving me the best foundation and instilling the value of education to me.

To my family and friends for their motivational and financial support.
The purpose of this research was to establish the impact of dividend policy on the financial performance of the 10 listed commercial banks in Kenya. The research used secondary data obtained from banks audited financial statement. To achieve this objective data from 10 listed commercial banks was analysed for the period of five years (2011-2015). The research was a census study and it adopted a descriptive design. This design fitted the study that aimed to determine the association between dividend policy and financial performance variables (Asset quality, capital adequacy, liquidity management and size). Regression was used to show the effect dividend per share, asset quality, capital adequacy, liquidity management and size on the financial performance and correlation analysis was employed to determine the association of the factors in the model. The research findings showed that total asset and capital adequacy had a weighty affirmative influence on the financial performance of the listed commercial banks while asset quality and dividend per share had no effect the return of assets of listed commercial banks. From the research findings, the study recommends that commercial banks and other sectors should invest in profitable assets that will yield higher returns in the future to enhance their financial performance and attract more profitable investments. The study further recommends that investors that should not determine the financial performance of the firms based on the dividend paid since there is insignificant relationship between DPS and financial performance. A similar study should be carried out on both listed and unlisted commercial banks in Kenya and for longer period of time such as 10-15 years. Further research on factors affecting financial performance of listed commercial banks could contribute to body of finance knowledge.
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ABBREVIATIONS

CAR – Capital Adequacy Ratio

CBA - Commercial Bank of Africa

CBK - Central Bank of Kenya

CBR - Central Bank Rate

CGT – Capital Gain Tax

CIS - Credit Information Sharing System

DPS – Dividend per Share

KBRR - Kenya Bankers Reference Rate

KCB - Kenya Commercial Bank

KDIC - Kenya Depositors Insurance Corporation

ROA - Return on Asset

ROE - Return on Equity

MM - Modigliani and Miller

NIM - Net Interest Margin

NPL - Non-Performing Loan

NSE - Nairobi Securities Exchange

SME - Small and Medium Enterprises

SSA - Sub-Saharan Africa
CHAPTER ONE: INTRODUCTION

1.1 Background
Dividend is a proportion of net income of the company paid to shareholders based on the number of shares held by them. Most companies mainly pay shareholders their dividends at the end of the accounting period while larger companies pay their dividends on quarterly basis. The amount of dividend to be amount and when dividends will be paid is decision of board of directors, who also determine whether dividends are paid from current net income or reserves. Preferred stockholders are paid dividend at a specified stable rate and are paid on priority while ordinary shareholders dividends depend on the company net income earned and investment plans for the company (Gols Ca, 2016). The continued significance of consistent dividend payment to uphold shareholder satisfaction remains as management priority (Frankfurter et al., 2003).

Several dividend theories that have been explained by academicians such as Modigliani and Miller. The theories view dividends as significant or immaterial in making financial decisions. The dividend irrelevance perspective by MM (1961) argues that dividends are irrelevant while dividend relevance perspective posits that dividends affect firm performance. According to several studies carried out, such as, Musyoka (2015) concluded that dividend policy affects the financial performance of firms.

The ten commercial banks listed on the NSE have a consistent year to year increase in profits; in addition some of them have a consistent year to year dividend payments while others do not (Sifunjo et al, 2015). Kenya Commercial Bank (KCB) paid a dividend of KES 1.00 in 2015 financial year compared to dividend payment of KES 2.20 in the year 2014. Co-operative bank of Kenya paid a dividend per share of KES 0.50 in 2014 and a dividend per share of KES 0.80 for the 2015 financial year.

1.1.1 Dividend Policy
Dividend policy is long-term financial choice on how to utilize net income generated from company undertakings that is, how much to invest in the company, and how much to pay stakeholders as dividends. The determination of the amount of dividends paid is a vital decision that firms take since shareholder wealth maximization is the foremost objective of the companies (Waithaka et al., 2012).
The dividend policy of the firm defines the pattern of dividend payment over time. A company can pay a large fraction of its earning as dividend or decide to pay a lesser proportion of its net income and reinvest the rest. There are two forms of dividends; cash dividends and stock dividends. When stock dividends are issued, the stockholders receive new stock in the company as dividend thus their number of shares increases and hence the shareholders does not receive cash is received.

There are four types of dividend policy; regular dividend policy, the shareholders receive dividend at regular intervals and investors are mainly retired persons, widows and other financially weaker persons in the community who are in need of consistent income. The regular dividend can only be paid by the company with regular and stable earning hence the firms should set the dividend paid at lower rate as compared to average earning of the organization (Managementent, 2016).

The second dividend policy is a stable dividend policy; stability means consistency in the payment of dividend to shareholders. The three forms of stable dividend policy are: constant dividend per share; this is a policy where static dividend per share is paid to shareholders irrespective of the level of earning by the company and in such firms dividend equalization reserve is created for the company to pay the dividend even in the year the earnings are insufficient or even if the company makes losses. It is appropriate for firms having a steady income. The second form is constant pay-out ratio; the company pays out a fixed fraction of its net income as dividends to its investors hence the dividend amount fluctuates in linear proportion to the corporation net income. It is preferred by companies since is based on their capability to pay dividends. The third form is low regular plus extra dividend; these policy is preferred by companies having inconsistent income such that they pay constant low dividend per share in such years but pay an extra dividend in the years of high profits (Shisia et al., 2014).

The third type of dividend policy is irregular dividend policy; here the shareholders do not receive regular dividends from the companies and the policy is applied when income is uncertain, unproductive business investment, inadequate liquid resources and distress of hostile effects of constant dividend on the financial performance of the organization. The fourth dividend policy is no dividend policy; some companies adopt a policy of not paying dividends because of its unfavourable financial position or when
capital is required for investment purpose such as expansion and growth. When making the decision of how much income to distribute as dividends, finance managers need to remember that maximizing shareholders value is the firm’s key objective. (Khorsandi, 2013).

1.1.2 Financial Performance
All organisations have financial performance measures as part of their performance management and one of the responsibility of a finance manager is evaluating and monitoring financial performance. The manager decides how the evaluation will be conducted; collect data that accurately reflects the performance of the business and develops a set of standards for measuring performance. If performance is not satisfactory, management must identify and implement strategies that will lead to improved performance (Miller et al., 2001).

The commonly used financial measures by the company owners and managers are: profitability, liquidity, solvency, financial efficiency and repayment ability. Profitability ascertains the extent to which a company produces net income from the use of its resources and money and it is mainly measured by return on asset and return on equity. Liquidity refers to capability of a firm to meet its financial responsibilities as and when they become owed in the short period, without distracting the usual business undertakings and is measured by current ratio. Solvency measures firm capacity to meet all financial responsibilities when all assets are sold and capability to continue with its feasible activities after monetary difficulties and it is calculated as a fraction of debt to equity, debt to asset and equity to asset. Financial efficiency measures the amount a company employs its assets to produce income and the value of making and buying and is measured as a proportion of asset turnover, operating expense, depreciation and interest expense (Boehljie et al., 2001).

Commercial banks perform an important part in the economic resource distribution as they route money from savers to investors and banks need to be lucrative for transitional function. The financial performance of banks has acute repercussions on fiscal development of nations; excellent financial performance compensates investors for their shares which sequentially attracts more venture and promotes economic development; while poor bank performance can result to insolvency and finally
bankruptcy which have negative effect on the fiscal development (Ongore and Kusa, 2013).

Past studies have revealed that commercial banks in the south of Sahara desert are extra lucrative compared to the rest of the world with an average return on asset of 2 percent; and this is as a result of investment in uncertain projects and the enormous mismatch of demand for bank service and availability of the same (Flamini et al., 2009). This indicates that the number of banks are fewer when related to the service demanded resulting to, stiff competition and banks charging high interest rates (Ongore and Kusa, 2013).

The state owned banks control the larger market stake in Kenya and East Africa. The performance of commercial banks is affected by internal and external factors that is bank specific and macroeconomic variables respectively (Al-Tammi, 2010). The bank individual aspects are distinct bank features which influence the bank’s functioning and they are mostly influenced by the interior decisions of the managers and directors of the corporation. The macroeconomic variables are factors which the company has no control over them though they affect the productivity of banks. The mostly used appraisers of bank functioning are return on equity, net interest margin and return on asset.

1.1.3 Dividend Policy and Financial Performance

Dividend policy is a critical factor that affects company financial performance; there is robust and affirmative association between dividend policy and firm performance (Ajanthan, 2013). Financial performance of most firms improves after paying dividends; thus there is association between financial performances of a firm and dividends paid (Mutie, 2011).

Dividend policy is one of the key variable that affects company performance. Corporations ought to ensure that they have a suitable and healthy dividend policy in place so as to improve their performance and attract more investments (Naum, 2014). According to Chumari (2014) there is an affirmative association among profitability, liquidity and firm performance. Cash dividends have a linear association with bank liquidity as measured by its net cash flows (Ahmed, 2014). Musyoka (2015) found that dividend policy had a positive impact on financial performance of firms listed on the NSE.
1.1.4 Listed Commercial Banks in Kenya

In Kenya, there are a total of 41 licensed commercial banks, 12 micro finance banks and one mortgage finance institution. The Central bank of Kenya is the regulatory of all banks but Capital Market Authority also oversees listed banks (there are ten listed commercial banks in Kenya). All banks are obligated to observe particular prudential guidelines for example the least emergency cash and liquidity set by the central bank. The new developments in banking sector include credit information sharing systems, agency banking, banc-assurance, mobile banking and they have stirred improved efficiency in the banks and enhanced competition (CBK, 2015).

The ten commercial banks listed on the NSE have a consistent year to year increase in profits; in addition some of them have a consistent year to year dividend payments while others do not (Sifunjo et al, 2015). The banking industry in Kenya has continued to increase its assets, deposits, productivity and products offering over the few years. The banking industry collective financial statement of position has grown to KES 3.60 trillion as at June 2015 (CBK, 2015). The growth has mainly been reinforced by; banks reacting to the desires of the market for ease and effectiveness through substitute banking networks such as agency, mobile and internet banking; industry wide branch network expansion strategy both in Kenya and in the East African community countries; flexibility by banks to cut their rates after the establishment of interest capping rate.

1.2 Research Problems

Dividend pay-out decision is considered as the most important financial decision that finance managers encounter (Baker, 2000). Dividend is payment to shareholders for their investment in a firm and it’s distributed from profit earned by the company at the end of the financial period (Kajola et al., 2015). Kajola et al., (2015) proved that there is an affirmative association between dividend pay-out and firm performance and thus corporations should invest in strong dividend policy that would attract profitable investments.

The banking industry in Kenya has continued to increase in assets, deposits, productivity and products offering with the collective balance sheet growing to stand at KES 3.60 trillion as at June 2015. Majority of the listed banks have reported profits over the recent past (CBK, 2015). The ten commercial banks listed on the NSE make
regular dividend payments (Sifunjo et al., 2015). An improved financial performance by listed commercial banks in Kenya would aid macro-economic stability, foster job creation and improved tax collections.

There are several studies about dividend policy that have been carried out on dividend policy and financial performance of banks in Kenya and globally. Ahmed and Fatima (2013) undertook a research about determinants of dividend policy focusing on sectorial analysis from Pakistan and concluded that profitability and size are major determinants of dividend policy. Amidu (2007) carried out a study about how the dividend policy affect firm performance and results revealed a positive relationship between return on asset and dividend policy. Velnampy et al, (2014) researched about dividend policy and firm performance with a focus on corporations in manufacturing industry listed on Colombo stock exchange and they found out that there is no association between determining factors of dividend policy and firm performance, thus according to Velnampy et al,2014 dividend policy does not affect firm performance.

Local studies have also been carried on dividend policy and financial performance. Wasike and Ambrose (2015) undertook a study about determinants of dividend policy in Kenya and found an affirmative relationship between dividend policy, profitability and cash flow. Shisia et al (2014) carried out a research about effects of dividend policy on financial performance of corporations in telecommunication industry quoted at Nairobi Securities Exchange and established the existence of a substantial association between dividend pay-out and dividend per share. Chumari (2014) concluded that dividend policy is relevant; there is an affirmative association between dividend pay-out and profitability, liquidity.

From the above studies, both local and foreign, the impact of dividend policy on financial performance is inconclusive. A number of the studies support the dividend relevance perspective while a few support the contrary. Both locally and globally little has been covered about impact of dividends on financial performance financial sectors such as listed commercial banks Therefore, the need for further research on the same area. Thus the research question: What is the effect of dividend policy on financial performance of listed commercial banks in Kenya?
1.3 Research Objective
The objective of this study was to establish the effect of dividend policy on financial performance of listed commercial banks in Kenya.

1.4 Value of the Study
Dividend was one of the variables that does not influence the financial performance of firms. Thus investors should not rely on the dividend paid to determine the performance of commercial banks and therefore investors need to look at others factors that might ascertain the financial performance of the firm before they make investment decisions. Investors will also use the findings of this research in making stock investment decisions. This study was also beneficial to bank management especially finance managers. The result from this study helped commercial banks management in designing their dividend policy by considering the past dividend payment and profitability and hence able to determine proportion of profit to retain for reinvestment purpose and proportion to pay shareholders as dividends. This study was beneficial to bank managers in planning on projects to undertake and ensure efficient utilisation of reinvestment resources. The study was beneficial to dividend policy makers of listed commercial banks by facilitating redesigning their dividend policy. Scholars and academicians; the study provided a basis on which further research on dividend policy could be carried out. This study contributed to body of knowledge of finance discipline by providing additional empirical evidence regarding the effect of dividend policy on financial performance.
CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction
In this chapter, various theories of dividend policies, determinants of performance of listed commercial banks and empirical review are discussed. The first section looks at various theories of dividends; the second section covers the determining factors of financial performance of listed commercial banks; the third section looks at several past studies carried out on dividend policy and finally the fourth section is a summary of key findings of the empirical studies and the gap this proposed study intends to fill up.

2.2 Theoretical Review
A number of dividend theories have been researched and discussed by academicians such as Pandey, (2003). The theories regard dividends as significant or immaterial in making financial decisions (Luvembe et al., 2014). The dividend irrelevance perspective argues that dividends are irrelevant while dividend relevance perspective posits that dividends affect firm performance.

2.2.1 Dividend Irrelevance Theory
Modigliani and Miller (1961) developed this theory. When return on investment is considered the investor sees dividends and capital gain as the same. While the valuation of a company is mainly affected by it revenues as a result of investment policy and future forecasts of the corporation. Once the investor know the investment policy is he will not require extra information on the dividend payment history of the company. Therefore the investment decision depends on the investment strategy of the company and not on the dividend policy.

MM (1961) additional explained the situations where dividends are irrelevant to investors since any shareholder can design his/her own dividend policy. When corporations does not pay dividends, a shareholder who requires dividend can construct it by vending a proportion of her/his shares and an investor can use the surplus dividend in acquisition of extra shares when a corporation pays dividend above what an investor needs. Therefore, investors can acquire and dispose off shares thus forming their own dividend policy at no cost, and therefore company dividend policy will be immaterial to financial performance. Miller and Modigliani (1961) indicated that divided policy is immaterial, they disclosed that as long as the corporation is getting profits anticipated by the market, it does not matter how the firm divides its earning between dividend
payment and its retained earnings. These further implies that dividend policy will not impact the financial performance of companies, thus dividend policy is irrelevant.

2.2.2 Bird in Hand Theory
The Bird in Hand theory was advanced by Gordon and Lintner (1962), they proposed that current dividends are relatively certain compared to future capital gains. They proposed that investors see the current dividend as more certain than the future dividends and capital gains. Risk averse investors choose to get dividend in the present period to forthcoming capital gain due to uncertainties associated with the capital gain and theory is based on the logic that what is available at present is preferred to what will be available in the future (Lim, 2008).

Gordon and Lintner (1962) argue that the future is uncertain and the more the distant the future is, the more uncertain is likely to be, hence investors will be agreeable to paying a superior price for stocks on which dividends are paid in the present period. Due to investors’ willingness to pay superior price for stocks on which dividend are paid, the financial performance of the firm is viewed positively since the firm is viewed to have capital to deploy in profitable investments that will yield high returns for the organization hence dividend policy is relevant.

2.2.3 Tax Preference Theory
Tax preference theory was first advanced by Litzenberger and Ramaswamy (1979). The theory suggests that investors have a preference of capital gains to dividends since capital gain taxes can be postponed into the future however taxes on dividend must be paid as dividends are received. Taxes are not paid on capital gain until the shares are sold and because of time value of money, the amount of taxes paid in the future has a minor actual cost than amount paid now. Therefore, because of tax benefit, investors desires companies to maintain large proportion of its income; hence investors are more ready to pay extra for low pay out corporations than for high pay out corporations.

This theory criticises the MM assumption that tax is irrelevant. The tax benefit of capital gain to dividends tends to influence investors who have capital gain preference to invest in firms that retain high proportion of their earnings than the ones that pay dividends (Njoroge, 2014). In Kenya, the Capital gain tax (CGT), which was suspended in 1985, was reintroduced from 1st January 2015. The CGT rate is 5% of the net gain, which is a final tax. With effect from 1st January 2016, capital gains arising from the transfer of
shares traded on any securities exchange licensed by the Capital Markets Authority are not subject to CGT (Deloitte, 2016)

2.2.4 Signalling Theory
The theory asserts that investors see dividend variations as an indicator of management incomes projections. It has been perceived that dividend upturns are regularly associated with an upturn in the share price and a decline in dividend are regularly complemented by drop in share price. These implies that, dividends are preferred compared to capital gains by investors and secondly that unanticipated dividend upturns is seen as indications of the superior income in the future (Norton, 2008).

The MM dividend irrelevance theory believes that every investor have the similar knowledge concerning the future revenue of the company. However, in actuality different investors have dissimilar beliefs and particular individuals have extra knowledge than others for example the corporation executives have better knowledge about imminent income than external investors (Norton, 2008). However, MM (1961) argues that companies are reluctant to reduce dividends which implies that corporation increases dividends only when they expect superior income in the future. Thus greater than anticipated upsurge in dividend is an indicator to investors that the management of the company project good earnings in the future and vice versa. MM (1961) further argues that investor’s response to variations in dividend policy does not necessarily imply that investors prefer dividend to retained earnings; but price adjustment after dividend announcement signify existence of important information.

2.2.5 Clientele Effect
This is the tendency of a firm to entice a certain group of investors who like its dividend policy. A dividend clientele is defined as a group of investors who are appealed to stocks of the company that have their desired dividend policy, distinct sets of stockholders desires dissimilar dividend policies; this may be due to the tax treatment of dividends and because some investors are seeking cash income such as retiree, the poor and the old prefer cash income hence invest in firms that pay high proportion of earnings as dividends (Norton, 2008).

Other clients prefer growth, for example, investors in their highest earning ages prefer reinvestment because they do not require much of their income therefore they reinvest dividend gotten after paying income taxes on those dividends. Investors in need of
current investment income should own stock in companies paying high dividends and vice versa. Change in the dividend policy may compel some stockholders to vend their shares (Gitman and Hennessey, 2004).

2.3 Determinants of Performance of Commercial Banks

The determining factors of performance of banks have drawn the attention of academic researchers as well as bank managers, bank directors and financial markets (Athanasoglou et al., 2005). Several research have be done on performance of banks and have been researched extensively in US and European markets and to less research have be done in emerging markets like Brazil, China, and comparatively not much is understood about performance of banks in developing countries such as Kenya.

The determinants of bank performances are mainly internal and external factors (Al-Tamimi, 2010).Internal factors are specific bank characteristics that influence the performance of banks and they are mostly influenced by internal decisions of the board and management. The external factors are factors which the management of the company cannot control. In the previous two decades the financial performance of banks in Kenya has generally improved, however, this does not imply that all banks are making profits, some of the banks declaring losses such as national bank of Kenya incurred a loss in the year 2015 (Oloo, 2010). Several research done indicate that bank specific and macroeconomic factors influence commercial banks performance (Flamini et al. 2009).

2.3.1 Internal Factors

Internal factors are specific bank characteristics which influence the productivity and are controlled by the management and they differ a cross banks. They include interest rate policy, size of deposits, information technology status, amount of capital, size and composition of loan portfolio and bank size. The other bank specific factors that are often used are liquidity, efficient of management, quality of assets and capital adequacy.

2.3.2 Capital Adequacy

Capital is the quantity of company reserve existing to finance the company ventures and act as a cushion in case of hostile circumstances (Athanasoglou et al., 2005). Dang (2011) defines capital adequacy as the funds needed by banks to maintain balance when financial organization are exposed to risks such as operational risk, credit risk and market risk, in order take in the possible deficits and safeguard bank debtors. Karlyn
(1984) describes capital adequacy as capital deposit proportion since the main risk is depository peril resulting from the large scale and abrupt withdrawals of deposits. Capital adequacy ascertains the financial strength and stability in terms of capital over assets such as investments and loans (Manel, 2015). Capital adequacy ratio (CAR) is calculated as a proportion of total equity to total assets thus an upsurge in this proportion will lead to increase in bank profit such that the bank excess capital is issued as loans (Nouaili et al., 2015).

2.3.3 Asset Quality

Asset quality involves the evaluation of firms assets in order to enable measurement of the level and size of credit risk associated with its operations (Abata and Adeolu, 2014). Loans are the main assets of banks and they generate a higher portion of income to banks and other assets are fixed assets, investment, current asset. The bank asset affect the profitability of a bank.

According to Ongore and Kusa (2013), a loan portfolio provides earning for the banks and ascertains the effectiveness of banks and the quality of loan portfolio is important to investors as it determines the creditworthiness of banks and has a direct impact on bank profitability. Nonperforming loans is a major risk facing commercial banks thus every commercial banks strive to maintain nonperforming loans at minimal level which reflect healthier portfolio of a bank.

2.3.4 Management Efficiency

Management efficiency is another specific factor that affect bank profitability and measured growth in total asset, net income and performing loan (Ongore and Kusa, 2013). It is the responsibility of organization management and board of directors, in their own ability, to detect, quantify, monitor, and regulate the risks of an organization undertakings and to ensure a harmless and sound financial organization efficient operation in conformity with appropriate regulations and laws (FDIC, 2016).

In general, directors are passively involved in daily undertakings of the business but are obligated to providing clear guidelines about tolerable risk exposure levels and ensure that suitable practises, policies and processes have been instituted. Managers are
accountable for evolving and effecting procedures, practices and policies that transform the risk limits and board objective into practical operational standards (FDIC, 2016).

Based on the characteristics and range of an organization's undertakings, management procedures need to tackle most of the following risks: credit, legal, market, compliance, reputation, liquidity, and other perils. Thorough management procedures are shown by: effective supervision by the management and board of directors; skilled employees; appropriate processes, policies, and control while considering the scope and complexity of the organization; maintenance of an appropriate audit program and internal control environment; and effective risk monitoring and management information systems. This assessment should reveal the boards and management capability since it concerns to all aspects of banking undertaking as well as other financial service endeavours in which the organization is engaged in (FDIC, 2016).

It is measured by different financial quotients such as total asset growth, loan growth rate and earnings growth proportion. Operational efficiency is minimizing the operational expenditures which is an alternative measure of management quality. The management achievement is measured by appraisal of management systems, administrative discipline, control systems and superiority of employees. The ratio of operational expenditures to total assets is estimated to be adversely related to profitability. Management quality thus determines the level of operational expenditures and hence affects profitability (Athanasoglou et al., 2005).

2.3.5 Liquidity Management
Liquidity is a very important variable to all banks because insufficient liquidity may lead to insolvency and eventually bankruptcy (Manel, 2013). Ongore and Kusa (2013) defined liquidity as the capability of the bank to accomplish its obligations, mainly of depositors. Anila (2015) stated that the main source of income for banks are loans. Hence when a good percentage of deposits are converted into loans, the bank interest income increases thus leading to higher profit. Liquidity is measured as a proportion of customer deposit to total asset or a proportion of total loan to customer deposits.

2.3.6 Macroeconomic Factors
Inflation, macroeconomic policy stability, interest rate, inflation, political instability and gross domestic product (GDP), are the main external factors that influence bank performance. For instance, the movement of GDP influence the demand of banks asset
such that when gross domestic product rate drops, the need for credit decreases which has a negative impact on bank profitability. However, when GDP rate increases the demand for credit is high. Manel (2015) concluded that a positive GDP rate increases profitability of banks because default risk is lower during boom periods as compared to recession time.

2.4 Empirical Review

Mohamed (2007) undertook a study to examine whether dividend policy influences firm performance in Ghana. The researcher used data derived from the financial statements of listed firms on the GSE over an eight-year period (1997-2004). A sample of 25 firms was used. Ordinary least squares model was employed in analysis of data. The study showed that there were affirmative relationships between dividend policy, growth in sales and return on assets. The study also revealed that superior companies on the GSE perform less with respect to return on assets and that there are adverse associations between leverage, return on assets and dividend pay-out ratio. This study therefore supports the dividend relevance theory.

Mehdi and Shahnza (2010) undertook a study with the aim to elaborate a model which would facilitate examination of the effects of dividends in relation to beta rate, size, price to earnings ratio, profitability, debt ratio and the rate of retained earnings. The population consisted of all listed corporations on the Tehran Stock Exchange and 73 firms were sampled randomly. Secondary data was collected for the period between 2000 and 2008 and analysed using regression analysis. The study established that there is a linear association between dividend and profitability, that there is an inverse association of these variables with P/E, beta rate and debt ratio, and that there is no meaningful association between the dividend policy and rate of retained earnings and company size. The study covered many firms over a long period of time thus data analysis could have been hectic and affected by macroeconomics fluctuations.

Uwalomwa (2012), in a research study to explore the association between the financial performance and dividend pay-out among listed firms’ in Nigeria, used secondary data from annual reports of fifty sampled firms between year 2006 to 2010. He used regression analysis as a statistical technique method for analysing the collected data. The research study identified that there is a weighty affirmative association between the performance of firms and the dividend pay-out of the sampled firms in Nigeria and
also established that ownership structure and firm’s size has a substantial impact on the dividend pay-out of firms.

Ahmed and Fatima (2013), evaluated the determining factors of dividend policy. The study was performed on Pakistan non-financial sector and used a sample of 174 non-financial firms listed on Karachi Stock Exchange. The study used secondary data covering the period 2005 to 2010. Panel data and regression analyses were used in data analysis. The study results recognized investment opportunities, size, profitability and tax, as most powerful determining factors of dividend policy, and that there is insufficiency of stable dividend policy in the market. This study focused on non-financial firms only; the proposed study shall focus on listed financial firms.

Musiega et al., (2013) examined the determinants among dividend pay-out of non-financial firms listed on Nairobi Securities Exchange. The population of the study consisted 50 listed non-financial companies and a sample of 30 firms was selected using purposive sampling technique. Secondary data, covering 5 years (2007-2011), was collected from audited financial statements of companies from Nairobi Securities Exchange website. Descriptive statistics and multiple regressions were used in data analysis. The research study concluded that Return on equity, current earnings and firms’ growth activities were positively correlated to dividend pay-out and that business risk and size, as moderating variables, increased the precision of significant variables from 95% to 99% hence among major determinants of dividend pay-out.

Velnampy and Kalaiarasi (2014) carried out a research study to establish the association between dividend policy and firm performance of listed manufacturing companies in Sri Lanka. Secondary data was used for the period of 2008 to 2012. Descriptive statistics, regression and correlation analyses were used to analyse the collected data. The study concluded that determining factor of dividend policy are not correlated to performance measures of the organization. Regression model showed that dividend policy does not influence companies return on asset and return on equity. Therefore this study thus supports the dividend irrelevance theory.

Ndirangu (2014) undertook a study to establish the effect of dividend policy on future financial performance of firms listed at the NSE. The study used secondary data for a period of five years from 2009 to 2013. The research study used a correlational research design. The research study established that there is a positive association between
current dividend pay-out and future earnings growth. The study was general to all listed Kenyan firms instead of industry wise hence that is why the proposed study shall focus on listed commercial banks in Kenya.

Chumari (2014), in a research study to find out the relationship between dividend pay-out and four financial performance variables (profitability, sales growth, cash flow and market to book value) of listed firms in Kenya, collected data from secondary sources that is financial statements. The study adopted a descriptive research design and a sample of thirty listed companies and used regression analysis in data analysis. The study concluded that there was a positive relationship between dividend pay-out and profitability and liquidity. This study also supports the relevance dividend theory.

Shisia et al., (2014) undertook a study with the purpose to establish the impact of dividend policy on financial performance of companies quoted at the Nairobi Securities Exchange (NSE). The study used data from secondary sources. Random sampling technique was adopted to select a sample of 30 listed companies. Regression and correlation analysis was used to analyse data collected. The study concluded that there is a substantial association between dividend pay-out ratio and dividend per share. This research study thus supports the theory of dividends relevance.

Wasike and Ambrose (2015) undertook a research to find out determinants of dividend policy in Kenya. Data were sourced from the firms’ annual reports. The census study used panel regressions techniques to analyse the data of all listed 60 (sixty) companies at Nairobi Securities Exchange (NSE) for the period 2004-2014. The research results showed that there are affirmative associations between dividend policy and profitability, cash flow, and tax, and that there are adverse associations between dividend policy and risk, institutional holding, growth and market-to-book value. This study supports the signalling theory of dividend policy.

2.5 Conceptual Framework
The conceptualization framework that shows the relationship between the dividend policy and bank performance and is as follows.
The conceptual framework above shows how performance is dependent on a number of independent factors, dividend policy, asset quality, capital adequacy and liquidity. Increase in Non-performing loans leads to poor financial performance while decrease of Non-performing loans leads to improved performance. Increase in total asset of firms leads to better financial performance of the firm since the firms are able to reinvest their assets which yields good returns that boost their performance.

2.6 Summary of Literature Review

In this chapter, the theories on dividend policy have been presented and discussed. Factors affecting banks performance were covered and they include capital adequacy, asset -quality, management efficiency, liquidity management and external factors. A number of past empirical studies on dividend policy have also been reviewed, the studies posted mixed reactions and conclusions. Some studies indicate that dividend
policy is relevant, Uwalomwa (2012) studied the relationship between the financial performance and dividend pay-out and concluded that there is a significant positive relationship between the performance of firms and dividend pay-out. Other studies have observed an inverse relationship between dividends and firm performance such as Velnampy and Kalaivarasi (2014) carried out a research about dividend policy and firm performance and concluded that dividend policy has no effect on ROE and ROA. This lack of unanimity indicates a need for further research on the proposed study topic; hence this study asks the question, what is the effect of Dividend policy on Financial Performance of listed Commercial Banks in Kenya?
CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction
This section looks at the research design that was used, the populace of the study, type and sources of statistics and finally analytical model that was used in analysing the collected data.

3.2 Research Design
The study was a census study and adopted a descriptive design. A census study is the study of every unit in the population. Descriptive design was used because it is the best method of collecting information that explain the relationship between variables. Descriptive studies answer questions such ‘What is’ and this research was to ascertain the association between dividend policy and financial performance of listed commercial banks using secondary data obtained from financial statements of listed commercial banks.

3.3 Population of study
The populace of the research was 10 listed commercial banks in Kenya for the period of 2011-2015. According to the CBK report (2015), there were 11 banks listed on the NSE; 10 were commercial banks and one mortgage finance institution (see appendix I). Due to the small size of the population, a census study was conducted hence there was no need for a sample.

3.4 Data Collection
Secondary data was collected from the financial statements of the 10 listed commercial banks submitted to NSE for the period of 2011 to 2015. The financial statements were obtained from the banks website. Size was measured by the total asset which was extracted from the published financial statements. Dividend per share was obtained from the published comprehensive statements of Income. Asset quality was measured by Non-performing loans which was extracted from published financial statements and other disclosures while liquidity was calculated as ratio of customer deposits to total assets and data was collected from published comprehensive income statement.
Secondary data was be used because it has been used successful in several past studies; Ndirangu (2014) used secondary data to establish the consequence of dividend policy on future financial performance of firms listed at the NSE. Figures was gotten from the financial statements because of reliability of the data as financial statement are audited and published.

3.5 Diagnostic Tests
Normality was checked using SPSS statistics, and the Shapiro-Wilk test was employed to access the normality of the data since is more appropriate for small samples (<50). From the result when Shapiro-Wilk sig. value is larger than 0.05 it implies that the dependent variable will be normally distributed and not normal if the Sig. value of Shapiro- is below 0.05. There are two test for heteroscedasticity of errors that is, white test and modified Breusch-pagan test. White test was carried out by assuming heteroscedasticity to be a linear function of all independent variables.

3.6 Data Analysis
Multiple regression model was employed to ascertain the consequence of dividend payout on financial performance of listed commercial banks. Financial statements and their disclosures was used to obtain data of the required variables. The model was used because it have been used in the past studies such as Ndirangu (2014) used multiple regression model in the research he undertook to ascertain the influence of dividend policy on financial performance of listed firms on NSE.

3.6.1 Analytical Model
The model took the form;
Perf_t = \alpha_0 + \beta_1 \text{DPS} + \beta_2 \text{AQ} + \beta_3 \text{CA} + \beta_4 \text{LM} + \beta_5 S + \Sigma_t
Return on Asset is a percentage of net income to total asset Perf_t . performance of year measured by return on asset.
\alpha_0 \quad -The Intercept
DPS –Dividends per share; obtained from comprehensive income statement
AQ \quad - Asset Quality; measured by NPL
CA \quad - Capital adequacy; measured by CAR
LM \quad -Liquidity Management; measured as a percentage of customer deposits to total asset.
S \quad - Size measured by total assets
\sum_t - Error term

3.6.2 Tests of Significance

Coefficient of variation $R^2$ was be used to establish the deviation in performance as given by independent variable and the F test was used to determine the significance of the variation. This was done at 95% confidence interval and correlation analysis was used to establish the association between financial performance and dividend policy.
CHAPTER FOUR
DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction
This chapter presents research findings of the impact of dividend policy on financial performance of listed commercial banks in Kenya. The study was carried out on ten listed bank from year 2011 to 2015 and secondary data was used. SPSS was used to analyse the obtained data and results provided in tables.

4.2 Descriptive Statistic
Table 4.1

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on Asset</td>
<td>50</td>
<td>-01</td>
<td>0.06</td>
<td>0.0334</td>
<td>0.1391</td>
</tr>
<tr>
<td>Dividend per Share</td>
<td>50</td>
<td>.00</td>
<td>47.70</td>
<td>6.1322</td>
<td>11.25486</td>
</tr>
<tr>
<td>Asset Quality(ln)</td>
<td>50</td>
<td>13.82</td>
<td>23.68</td>
<td>21.9384</td>
<td>1.48477</td>
</tr>
<tr>
<td>Capital Adequacy Ratio</td>
<td>50</td>
<td>0.09</td>
<td>0.20</td>
<td>0.1607</td>
<td>0.02421</td>
</tr>
<tr>
<td>Liquidity Management</td>
<td>50</td>
<td>.49</td>
<td>.88</td>
<td>.7265</td>
<td>0.07846</td>
</tr>
<tr>
<td>Size(‘000’)</td>
<td>50</td>
<td>24.93</td>
<td>26.87</td>
<td>25.8532</td>
<td>.476</td>
</tr>
<tr>
<td>Valid N(list wise)</td>
<td>50</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The descriptive results above gives the minimum, maximum, mean and standard deviation. The average firm performance over the period of five years was 0.0334, maximum firm performance was 0.06 while the minimum was -.01. The average DPS over the 5 years was 6.1322 while the maximum was 47.70 and minimum was 0. The average asset quality for the 5 years was 21.9384, maximum being 23.68 and a minimum of 13.82. Capital adequacy ratio had average of .1607, maximum of .20 and minimum of 0.09. The average liquidity management over the 5 years was .7265, while the maximum was .88 and minimum was .49. The average total asset over the five years was 25.8532, while a maximum of 24.93 and a minimum of 26.87.
4.2.1 Diagnostic Tests.

Normality was tested using Shapiro-Wilk because it is more appropriate for small samples.

Table 4.2 Shapiro-Wilk

<table>
<thead>
<tr>
<th></th>
<th>Statistic</th>
<th>df</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on Asset</td>
<td>.969</td>
<td>50</td>
<td>.216</td>
</tr>
<tr>
<td>Dividend per share</td>
<td>.571</td>
<td>50</td>
<td>.000</td>
</tr>
<tr>
<td>Asset Quality</td>
<td>.892</td>
<td>50</td>
<td>.000</td>
</tr>
<tr>
<td>Capital Asset Ratio</td>
<td>.962</td>
<td>50</td>
<td>.104</td>
</tr>
<tr>
<td>Liquidity management Size</td>
<td>.918</td>
<td>50</td>
<td>.002</td>
</tr>
<tr>
<td></td>
<td>.939</td>
<td>50</td>
<td>0.12</td>
</tr>
</tbody>
</table>

From the above table we can see that the dependent variable return on asset, capital adequacy ratio and size were normally dispersed because their sig. value of Shapiro-Wilk was more than 0.05 (return on asset (P=.216), CAR P =.104 and total asset p = .12). While asset quality, dividend per share and liquidity management were not normally distributed because their sig. value was less than 0.05, p values was .000, 0.000 and 0.002 respectively.

4.3 Correlation Analysis

Table 4.3

<table>
<thead>
<tr>
<th></th>
<th>ROA</th>
<th>DPS</th>
<th>AQ</th>
<th>CAR</th>
<th>LM</th>
<th>SIZE</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DPS</td>
<td>.139</td>
<td>1.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AQ</td>
<td>0.185</td>
<td>-.310*</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CAR</td>
<td>.424**</td>
<td>.257</td>
<td>-.076</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LM</td>
<td>-.227</td>
<td>-.240</td>
<td>.064</td>
<td>-.543**</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Size</td>
<td>.417**</td>
<td>-.163</td>
<td>.587**</td>
<td>.224</td>
<td>-.260</td>
<td>1</td>
</tr>
</tbody>
</table>

**.Correlation is significant at the level 0.01 level (2-tailed).

*.Correlation is significant at the 0.05 level (2-tailed).
Correlation analysis was used to show the associations between variables. The results in the above table shows the correlation between firm performance and dividend per share is positive ($r = .139$) but not significant since the $p = .336$ which is greater than 0.05. This implies that an improved firm performance is associated with an increase in dividend per share. The study results also revealed a positive association between firm performance and asset quality which was not statistically significant ($r = .185$, $n = 50$, $p = .198$).

The correlation findings further showed that there was a robust, affirmative correlation between firm performance and capital adequacy ratio which was statistically significant ($r = .424$, $n = 50$, $p = .002$). Meaning that these variables tend to increase together that is increase in firm performance is associated with increase in capital adequacy ratio.

Findings also showed a negative correlation between firm performance and liquidity management which was not statistically significant ($r = -.227$, $n = 50$, $p = .113$), which indicates that an increase in liquidity leads to reduced firm performance while decrease in liquidity leads to improved firm performance. The findings also indicated a strong, positive correlation between firm performance and log of total asset (size) which was statistically significant ($r = .417$, $n = 50$, $p = .003 < .05$). This implies that an increase in total asset corresponds to increase in firm performance and decrease in total assets leads to decrease in firm performance.

4.4 Regression Analysis

Table 4.4 Model Summary

<table>
<thead>
<tr>
<th>model</th>
<th>R</th>
<th>R square</th>
<th>Adjusted R square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.551$^a$</td>
<td>.304</td>
<td>.224</td>
<td>0.01225</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), size (ln), liquidity management, dividend per share, capital adequacy ratio, asset quality (ln).

Regression analysis results presented in table 4.4 indicate R which is simple correlation coefficient was .551 which points to a solid positive relationship between the study variables. Coefficient of determination ($R^2$) of .304 indicates that 30.40% of the variations in listed banks financial performance is expounded by the predictor factors in the analytical model (dividend per share, asset quality, capital adequacy, liquidity management and size). While 69.6% of the variation in value of financial
performance is explained by other factors not included in the model. The value of adjusted R was .224 which indicates that there was 22.4% variation in financial performance of the listed bank due to changes in number of independent variable.

Table 4.5 ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of squares</th>
<th>df</th>
<th>Mean square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.003</td>
<td>5</td>
<td>0.01</td>
<td>3.835</td>
<td>0.006</td>
</tr>
<tr>
<td>Regression</td>
<td>0.007</td>
<td>44</td>
<td>0.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Residual</td>
<td>0.009</td>
<td>49</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>0.009</td>
<td>49</td>
<td></td>
<td>0.006</td>
<td></td>
</tr>
</tbody>
</table>

a. dependent variable: return on assets
b. Predictors: (Constant), Size (ln), liquidity management, dividend per share, capital adequacy ratio, asset quality (ln).

The above table 4.5 shows that the regression model predict the return on assets significantly well which show that the regression model is statistical significant (F = 3.835). From table 4.5 the p value is 0.006 which is smaller than 0.05 which implies that independent variables predicts the financial performance. This indicates that the model has the probability of 0.006 of giving false prediction thus the statistical significance of the model (F=3.835, p = 0.006<0.05).

Table 4.6 Regression Coefficients
### Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>-.284</td>
<td>0.118</td>
<td></td>
<td>-2.419</td>
</tr>
<tr>
<td>Dividend per share</td>
<td>0.000</td>
<td>0.000</td>
<td>.139</td>
<td>1.007</td>
</tr>
<tr>
<td>Asset Quality (ln)</td>
<td>0.000</td>
<td>0.002</td>
<td>0.044</td>
<td>0.267</td>
</tr>
<tr>
<td>Capital Adequacy ratio</td>
<td>.203</td>
<td>0.089</td>
<td>.354</td>
<td>2.276</td>
</tr>
<tr>
<td>Liquidity Management</td>
<td>.015</td>
<td>0.028</td>
<td>.086</td>
<td>.557</td>
</tr>
<tr>
<td>Size(ln)</td>
<td>0.010</td>
<td>0.005</td>
<td>.349</td>
<td>2.037</td>
</tr>
</tbody>
</table>

a. Dependent variable : ROA

The above coefficient table gives the required data to forecast financial performance that is dependent variable from predictor variable and also to establish whether the predictor variables are statistically important to the model. The first coefficient (constant) is the intercept and is -.284 which means when all predictor variables are zero the return on asset is -.284. Then for each unit change in independent variables (dividend per share, asset quality, capital adequacy ratio, liquidity management and size) the dependent variable (return on asset) will change by 0.00, 0.00, 0.203, .015 and 0.010 respectively. From the table only two variables are significant, capital adequacy and size because their p values are less than 0.05. Then regression equation becomes:

\[
Y = -0.284 + 0.000\text{DPS} + 0.000\text{AQ} + 0.203\text{CAR} + 0.15\text{LM} + 0.010\text{Size} + 0.0118\Sigma
\]
4.5 Summary and Interpretation of Findings

The objective of this study was to establish the effect of dividend policy on financial performance of listed commercial banks in Kenya. Descriptive statistics showed that firm performance measured by ROA had a mean of 0.0334 and a standard deviation of 0.01391. Which implies that a unit log of asset generates 0.0334 units of income.

Dividend per share had a mean of KES 6.1322, a minimum of KES 0.000 and maximum of KES 47.70. This implies that listed banks paid average dividend of KES 6.1322 and highest dividend paid was KES 47.70 while some banks did not declare dividends in some of the years under study resulting no dividend being paid i.e. National bank did not declare dividends in the year ended 2015 because they had a net loss. Asset quality had a mean of log 21.9384, a maximum of log 23.68 and minimum of log 13.82.

Capital adequacy ratio had a mean of .1607, minimum of 0.09 and maximum of 0.20 while liquidity management had a mean of .7265, a minimum of .49 and maximum of .88. The total asset had a mean of log 25.8532, minimum of log 24.93 and a maximum of 26.87. Return on asset and capital adequacy ratio were the variables that was normally distributed because their sig. value of Shapiro –Wilk was .216 and .104 respectively which was greater than 0.05.

Coefficient of determination results showed that the five independent variables (dividend per share, asset quality, capital adequacy, liquidity management and size) account for 30.4% variations in the dependent variable (financial performance). The findings of regression coefficient enables us to predict financial performance (dependent variable) from independent variable and also explains statistically significant of independent variables to the model. A constant of -.284 in regression coefficient implies that when all the predictor variables are zero the financial performance of listed banks is -.284.

The coefficient of correlation results show that the independent variables (DPS, asset quality, capital adequacy ratio and size) had a positive impact on the dependent variable (return on asset) but only capital adequacy and total asset had a positive and significant impacts on financial performance. Which implies that increase in DPS, asset quality, capital adequacy and total asset results into increased financial performance of listed commercial banks. The independent variable, liquidity
management had a negative effect on dependent variable (ROA) thus an increase in liquidity management result to decrease in return of assets of listed commercial banks.

From the regression equation, the study established that when dividend per share, asset quality, capital adequacy, liquidity management and size are constant, financial performance was -.284. Additionally when asset quality, capital adequacy, liquidity management and size are constant, a unit change in DPS will result to no change in financial performance of listed banks. Hence this study supports the irrelevance theory of dividend such that the firm performance is not affected by the dividend policy. When dividend per share, capital adequacy, liquidity management and size are constant, a unit change in asset quality resulted to no change in financial performance of listed banks.

When dividend per share, asset quality, liquidity management and size are constant, a unit upturn in the capital adequacy would result to .203 unit upsurge in financial performance. Holding dividend per share, asset quality, capital adequacy, and size constant, a unit increase in liquidity management result to 0.015 unit increase in financial performance. When dividend per share, asset quality, capital adequacy and liquidity management are held constant, a unit log increase in the total asset would lead to 0.010 unit increase in financial performance. In summary the research established that capital adequacy, and size had a significant positive impact on the financial performance of the listed banks while asset quality and dividend per share had no effect on the return of asset of listed commercial banks. There was negative correlation between liquidity management and financial performance.

The study is seen to be in line with Velnampy and Kalaivarasi (2014) who undertook a research establish the association between dividend policy and firm performance of listed manufacturing corporations and regression results showed that dividend policy does not affect companies return on asset. Thus these study support the dividend irrelevance theory.
CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

In this chapter a summary of data analysis is discussed. First section provides the summary of the findings, other sections includes conclusions and limitations of the study, proposals for further research and recommendations.

5.2 Summary of Findings

In finding the impacts of dividend policy on financial performance of listed commercial banks in Kenya. The research evaluated the following financial performance variables dividend per share, asset quality, capital adequacy, liquidity management and size of the firm. From the collected data, predictor variables were extracted and calculated to facilitate sufficient investigation to be done.

Dividends per share had immaterial impact on financial performance of listed commercial banks in Kenya. A unit upsurge in dividend per share resulted to no change in the financial performance. Thus this study showed that dividends does not affect firm performance hence supports MM (1961) the dividend irrelevance theory.

Asset quality had no effect on financial performance of listed banks, which implies that that a unit change (increase or decrease) in non-performing loans does not affect financial performance of listed commercial banks. Non-performing loans is a major risk facing commercial banks thus all commercial banks try to keep non-performing loans to low level which reflect a healthier portfolio of the bank. The quality of loan portfolio is important to investors since it determines the creditworthiness of the banks. The correlations results further showed a weak positive association between asset quality and return on asset with r = 0.185 and p = .198).

Capital adequacy had an affirmative impact on the financial performance of listed banks; a unit upturn in capital adequacy ratio resulted to 0.203 unit increase in financial performance. The correlation results discovered existence of a strong affirmative substantial relationship between capital adequacy and return on asset as evidenced by r = .424 and correlation index (p =.002). Capital adequacy ratio is
obtained by dividing total equity to total asset hence an upsurge in this ratio results to improved bank financial performance in that excess bank capital is issued as loans. Loans are main asset of the banks and increase in amount of good loans issued, the higher bank interest income received leading to increased profits.

Liquidity management had an affirmative influence on the financial performance of listed commercial banks, such that a unit upsurge in liquidity resulted to 0.015 unit increase in financial performance. Liquidity is an important factor to all banks since insufficient liquidity can lead to insolvency and bankruptcy of banks. The correlation findings indicated an irrelevant negative association between liquidity and financial performance with (r = -.227 and p = .113).

Size measured by total asset had a positive effect on the financial performance; a unit log increase in total asset lead to 0.010 unit increase in return of assets. Correlation results further showed a relevant affirmative associations between the banks size and return on asset. Thus size is one of the major factors that affects financial performance of listed commercial banks in Kenya.

5.3 Conclusions
The objective of the research was to establish the effect of dividend policy on financial performance of listed commercial banks in Kenya. Dividend per share, asset quality, capital adequacy, liquidity management and size were the predictor variables. The results of the study revealed that dividend per share had no effect on the financial performance of listed banks. Thus amount of dividends paid does not affect the financial performance of but banks should pay dividends when they are financially strong. These findings are consistent with research finding of Velnampy and Kalaiarasi (2014) which found that dividend policy does not affect companies return on asset. The findings of these study are inconsistent with the findings of Mohamed (2007) research which found out that there was negative relationship between return on asset and dividend pay-out.

The findings of the research confirmed that total assets is a major factor that influence the financial performance of listed commercial banks. Total assets had a substantial affirmative effect on financial performance of banks thus an increase in total assets resulted to an improved financial performance. This implies that managers should efficiently utilize the firms asset and invest in assets that yield higher returns to the
firm. On the other liquidity management had a negative minor impact on the financial performance while capital adequacy had a major affirmative impact on the financial performance of banks.

The research concluded that the major factor affecting financial performance of listed commercial banks are capital adequacy and size measured by log of total asset. Other factors such as asset quality and dividend per share had insignificant impact on the return of assets of the banks. Hence firms should ensure that they have good and effective strategies that will lead to increased total asset, capital adequacy ratio and such other factors that will result to improved financial performance of banks in the future.

5.4 Revised Conceptual Framework

<table>
<thead>
<tr>
<th>Independent variables</th>
<th>Dependent Variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size</td>
<td>Performance</td>
</tr>
<tr>
<td>Total Asset</td>
<td>ROA</td>
</tr>
<tr>
<td>Capital Adequacy</td>
<td></td>
</tr>
<tr>
<td>CAR</td>
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The above revised conceptual framework shows the independent variables size and capital adequacy have a significant affirmative influence on the financial performance measured by ROA. An upsurge in total assets leads to upsurge in ROA because banks utilizes their assets effectively resulting to high return thus improved financial performance while a reduction in total asset leads to decline in financial performance.

5.5 Recommendations

From the established findings of this study the following recommendations are formulated. Commercial banks and other sectors should invest in profitable assets that will yield higher returns in the future to enhance their financial performance and
attract investments in the future. The management of the banks should ensure a good proportion of deposits are converted into loans which will result to increased bank interest income hence leading to higher profits and better financial performance.

From the research findings, there was no weighty impact of dividend per share on the financial performance thus investors should not rely on the amount dividends paid to ascertain the financial stability of the firms.

5.6 Limitations of the Study
The research mainly concentrated on the secondary data acquired from annual reports of listed commercial bank which is not reliable as the data is prone to errors and may be biased. The study also does not consider the effect of the environment (both financial and political conditions) that could affect financial performance of banks.

The study was restricted to only listed commercial banks in Kenya. Thus the relationship between the study variables for unlisted banks might be different from the listed one used in the study. The population of 10 banks is too small to generalize the results since there are many banks operating in the Kenya. The study was limited to 5 years hence the period was too short to observe changes in variables.

The variables in the study were not exhaustive in explaining the variation in financial performance because the findings showed that only 30.4% in variation of financial performance was explained by the independent variables.

5.7 Suggestions for Further Research
The study was done listed commercial banks in Kenya only thus is difficult to generalize the findings non listed banks. Another study can be done to inspect the influence of dividend policy on financial performance of both listed and non-listed commercial banks as to be able to generalize the results. This research can be repeated with a wider population by including firms from other sector such as agriculture, insurance and manufacturing both in Kenya and East Africa.

There is a necessity for more similar research to be carried out but for a lengthier interval of time. This study took into consideration a period of five years from 2011-2015, hence a study of 10 to 15 years would be recommended. Another study can be
carried out to establish the effect of environment both political and economic on the financial performance of both listed and unlisted commercial banks.

From the study outcomes only 30.4% of the deviation in financial performance is expounded by the predictor variables in the model, thus another study on the same area should be carried to find variables that explain 69.60% variation in performance.
REFERENCES


Appendix I: Listed Commercial Banks on NSE

1. Barclays Bank of Kenya Limited
2. Cfc Stanbic Bank
3. Diamond Trust Bank Kenya Limited
4. Equity Group Holdings
5. I &M Holdings Limited
6. Kenya Commercial Bank Limited
7. National Bank of Kenya
8. Nic Bank Limited
10. The Co-operative Bank of Kenya Limited
### Appendix II: Data Summary

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