

**RELATIONSHIP BETWEEN DIVIDEND PAYOUT AND STOCKS  
PERFORMANCE OF LISTED COMMERCIAL AND SERVICES  
COMPANIES IN KENYA**

**BY**

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## **DECLARATION**

### **STUDENT:**

I, the under signed, wish to declare that this research is my original work and has not been presented in any other university or institution of higher learning before

Signed..... Date.....

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This research proposal has been submitted for examination with my approval as the university supervisor.

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## **DEDICATION**

I wish to dedicate this research project to my parents Mr. and Mrs. Machogu, whose consistent guidance, support and prayers enabled me achieve this milestone. Their moral and material support was very instrumental to this achievement.

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## **LIST OF ACRONYMS AND ABBREVIATIONS**

CDSC: Central Depository and Settlement Corporation

CMA: Capital Markets Authority

EBIT: Earnings Before Interest and Tax

EVA: Economic Value Added

FOSA: Front Office Savings Account

IPO : Initial Public Offer

LTD: Limited

NSE: Nairobi Securities' Exchange

ROA: Return on Assets

ROI: Return on Investment

ROE: Return on Equity

SDDs: Specially Designated Dividends

SPSS: Statistical Package for Social Sciences

## **ABSTRACT**

The study on the relationship between dividend payout and stocks performance of listed commercial and services companies in Kenya was carried out using desk research and secondary sources from credible sources within the market. The companies involved were all listed under the Nairobi Securities' Exchange. Data collection was the most extensive part of the research, with data from the 11 companies listed under the section collected and analyzed. The analysis led to the development of four major categorizations for the variables that would be used in the research. These include; the Return on Assets, the Size of the Firms, the Dividend Payout Ratios and the Leverage analysis. The companies were analyzed and the averages for the four variables determined. The research also determined the highest values as well as the lowest values from the companies listed, basing on the four variables predetermined. The findings from the data analysis were that; the dividend payout was the most influential factor in determining stock performance. The firm size was also a significant factor but the leverage ratio was quite insignificant. The research concluded that companies need to put in place measures to ensure dividend payouts regardless of low profit earnings. This would encourage more investors to buy into the company's stock. The ripple effect would be that the stock price of the company's shares would rise inadvertently.

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

In corporate world, profit-making is often the most important goal. The modern market setup is designed to ensure profit maximization. Organizations have to bother about self-interests before they can satisfy the needs of the investors, then finally, the consumer (Kanwal and Hameed, 2017). Indeed, while profit-engineered directives are logical, there is often the concern that the less the investor is motivated, the less likely they are to contribute more to the organization's capital and liquidity needs. According to Baker, Veit & Powell (2010), organizations have to be accountable to their owners, who are the shareholders. Dividend payouts thus constitute an integral part of the organization setup that cannot be ignored. In light of these needs, many organizations tend to explore crafty means to guarantee the investor of stability. Some of these strategies include; creative accounting, incentives and promotional products (Kanwal and Hameed, 2017). In so doing, they manage to convince deep-pocketed investors to spend more and increase their liquidity for operational purposes.

The profit approach of created showcase is not the same as the profit strategy of developing business sector. In creating nations, the profit payouts proportion are just two third of that in created nations (Glen, Karmokolias, Miller, and Shah, 2005). The investor riches and firm esteem can be affected by the profit arrangement (Baker, Veit, & Powell, 2010). Numerous analysts have exhibited different speculations and uncountable exact confirmations, to build up the connection between profit strategy and different firms' viewpoints, for example, advertise cost of the offers however the issue is as yet uncertain and open for assist dialog. It is among top ten uncertain issues in fund writing and we have not

had a sufficient clarification for the watched profit conduct of the organizations (Brealey and Myers, 2005). Because of the monetary emergency, financial specialists have begun to want high current profits to meet their financial needs (Michael, 2011).

The organization cost hypothesis decides the profit approach emerging from the control and deviation of ownership. The chief of the firm can pick profit approaches that upgrade their own private advantage as opposed to pick a profit strategy which improve the estimation of investor (DeAngelo and DeAngelo, 2006). Flaggging hypothesis clarifies that the profit strategy fill in as a wellspring of correspondence that give the data to the financial specialist about the firm execution. It additionally gives significant data to the investor about the administration evaluation for the company's future execution or benefit. The firm offer cost can be evaluated by the financial specialist utilizing this data. So as indicated by this hypothesis the profit strategy is important (Al-Kuwari, 2009).

### **1.1.1 Concept of Dividend Policy**

The concept of dividend policy is the set of guidelines that is applied by companies when paying out dividends to the shareholders. Often, the dividend policy is a product of a policy model or an extrapolated version. Two models exist; the residual dividend policy model and the dividend stability model. However, there is a third variation of the hybrid model (Ross, Westerfield & Jaffe, 2012). The residual dividend is the remaining amount of money that emanates from the residual leftover from projects. This is calculated after all the project capital requirements are met. It is often a measure to ensure that the debt/equity ratio is always balanced and that the company has no outstanding liabilities, before paying out dividends. The stability model sets out quarterly dividends as a fraction of the annual company earnings. While this may not balance out the debt to equity ratio, it ensures that each investor gets their return on profits, thus can reinvest capital (Al-Kuwari, 2009).

The choice on installment of profits is impacted by various elements. Gill, Biger, and Tibrewala (2010) depict profit payout as critical for speculators since profits give sureness about the organization's monetary prosperity, profits are alluring for financial specialists hoping to secure current wage, and profits help to keep up the market cost of the offers. Organizations that have a long-standing history of stable profit payouts would be contrarily influenced by bringing down or excluding profit conveyances. These organizations would be emphatically influenced by expanding profit payouts or making extra payouts of similar sums since this sends a positive flag to the share trading system. Organizations without a profit history are by and large seen positively when they pronounce new profits.

Profits keep on giving blended flags in this manner prompting situation and vulnerability confronted by administration in concocting a profit strategy that is appropriate for their association. For example, Mumias Sugar Company is one of the most elevated yielding Kenyan stocks right now at 10.42% yet keeps on being inadequately esteemed according to stock cost as of now at 4.40. Then again, Loss-production Marshalls challenged its poor execution as its offer cost expanded 14.5 for every penny to Sh14.2 in the previous a year (Hoover, 2015). Marshalls did not pay a profit in the year 2012. National bank of Kenya offers a little profit however is moderately costly while Housing fund organization offers a generous profit yet its benefit pales alongside that of its companions (Hoover, 2015).

### **1.1.2 Stocks Performance in Listed Companies**

Specialists have diverse perspectives about whether profit payout substantially influences the long haul share costs. Dhanani, (2005) who utilized a study way to deal with catch administrative perspectives and mentalities of corporate chiefs in regards to profit strategy found that profit approach serves to upgrade corporate market esteem. Be that as it may, Farsio, Geary and Moser (2004) contend that experimental examinations that close a causal relationship exists amongst income and profits depend on brief timeframes and are in this way deceptive to potential

financial specialists. In this way, profits have no illustrative energy to anticipate future income.

In Tunisia, Naceur, Mohamed and Amel (2006) in their examination on the determinants of profit arrangement of Tunisian stock Exchange discovered that the high beneficial firms with more steady income can deal with the bigger money streams and on account of this they pay bigger profits. In addition, the organizations with quick development disperse bigger profits to draw in financial specialists. The proprietorship fixation does not have any effect on profit installments. The liquidity of firms has adversely affected profit installments. In an Indian case Reddy (2006) demonstrate that the profits paying firms are more gainful, extensive in size, and developing. The corporate assessment or duty inclination hypothesis doesn't seem to remain constant in Indian setting. Amidu & Abor (2006) discovered that profit payout approach choice of recorded firms in Ghana Stock Exchange is affected by productivity, income position, and development situation and speculation chances of the organizations.

### **1.1.3 How Dividend Payouts relate to stock performance**

According to Amidu & Abor (2006), there is a significant relationship between stock performance and the dividend payout. Indeed, while dividend payout is a function of the dividend policy, investors often do not get into the details of the policy. The concern about any investor is the performance of their investment, with regard to the yield they accrue on an annual or quarterly basis. Paying out dividends is thus in essence a marketing tool to encourage investment. Given that the stock performance is a function of the market capitalization and the share price, it is indeed of great interest that companies ensure that their stock prices keep soaring. As this happens, the companies become more liquid and are able to make the dividend payouts quarterly. Naceur, Mohamed and Amel (2006) argue that companies that do not have great stock speculation often do not attract high-end investments. This lowers their profits and incidentally, the dividends as well.

It is thus the goal of any company executive to promote the company brand, raise company stocks and ensure that dividends are paid out highly as well.

#### **1.1.4 Performance of companies listed in Nairobi Securities Exchange**

The performance of the companies listed in the Nairobi Securities Exchange has been monitored since the inception of the Nairobi Securities Exchange Market in the 1920s when a casual method for exchanging shares was done when Kenya was as yet a British settlement (Ngugi, 2003). Each company listed has to meet a threshold of shareholding and market capitalization, set by the Capital Markets Authority in 1989. Evaluation of the market is also done by international stock brokers and different stock exchange markets such as the London Stock Exchange and the New York Stock Exchange (Waithaka et al., 2012). Companies listed have to pay out dividends on a quarterly basis and have to consistently record the price of their shares, for continuous scrutiny and monitoring. For purposes of this research, the Nairobi Securities Exchange has been chosen as it offers a basis for monitoring a particular sector of the securities market for a period of time, using information recorded on credible sources and databases.

The Nairobi Securities Exchanged Market is charged with the duty of building up the share trading system and controlling the trading, for fair representation of stock prices (Waithaka et al., 2012). The presentation of the Central Depository and Settlement Corporation (CDSC) implied that speculators could open share and bond accounts, in electronic records like their financial balances, and consequently purchasing and offering of offers and bonds was made significantly simpler and faster (Nairobi Securities Exchange, 2014). The NSE at present has 68 recorded organizations which are grouped into thirteen eleven segments to be specific; rural, vehicle and extras, managing an account, business and administrations, protection, media transmission, fabricating and associated, venture, protection, land speculation put stock in, vitality and oil, and development and partnered, speculation administrations and trade exchange support. This investigation will however be constrained to the business and



services sector which has the most noteworthy number of organizations (12) when contrasted with different divisions recorded in NSE. The organizations in this division are: Express Ltd, Kenya Airways Ltd, Nation Media Group, Standard Group Ltd, TPS Eastern Africa (Serena) Ltd, Scangroup Ltd, Uchumi Supermarket Ltd, Hutchings Biemer Ltd, Longhorn Publishers Ltd, Atlas Development and Support Services, Deacons (East Africa) Plc and Nairobi Business Ventures Ltd.

## **1.2 Research Problem**

Before a dividend payout is made, a company has to consider the profit and the rationale for sharing the dividends. This process is a series of variables that need to be evaluated as regards how they affect stock performance. Since the duration from profit declaration to dividend payout differs among different companies, the main concepts are; profit declaration, allocation of earnings per share, corporate strategy announcement/indication and dividend payouts. These aspects are a culmination of strategic step-wise events that every company has to undergo in its annual cycle. Scientists Amidu (2007), Zhou and Ruland (2006), keep on coming up with various discoveries about the connection between profit payout and pieces of the overall industry cost. The analysts clarify that profit strategy impact the stock cost of the organization and upgrade the investor riches and firm an incentive too (Salih, 2010). Profit choice is critical in light of the fact that it clarify that how much supports are held by the organization for the speculation reason and how much streams towards speculator (Ross, Westerfield, and Jaffe, 2012).

Administration are in an issue about whether to pay a substantial, little or zero level of their profit as profits or to hold them for future ventures. This has come to fruition because of the requirement for administration to fulfill the different needs of investors and in addition vulnerability on the impact the profit payout proportion will have available estimation of their organizations. This is an issue to recorded organizations in any economy and for the most part in creating nations, for example, Kenya. Since the administration is managing contending interests of

different investors, the kind of profit strategy they embrace may have either positive or negative impacts on the offer costs of the organization. They are in this manner unfit to conjecture with conviction to what degree the arrangement will influence the offer costs of their organizations.

A survey of the neighborhood thinks about led around there demonstrates that Ng'ang'a (2014) inspected the connection amongst profits and association's execution: a contextual analysis of recorded firms in the Nairobi securities trade for the period 2006 – 2012. This examination was keen on taking a gander at how profits influence company's execution and just for a predefined period. Murekefu and Ouma (2012) additionally took a gander at the connection between profit payout and firm execution of Listed Companies in Kenya. Much the same as the investigation by Ng'ang'a, the examination took a gander at how profit payout influences firm execution. Then again, Mukora (2014) took a gander at the impact of profit declaration on stock returns of firms recorded at the Nairobi Securities Exchange. None of these investigations took a gander at how profit payout influences the stocks' execution, a hole that this examination tries to fill. It is against this foundation along these lines that the examination looks to inspect connection between profit payout and stocks execution of recorded business and administrations organizations in Kenya

### **1.3 Objective of the Study**

To establish the relationship between dividends payout and the stock performance of listed commercial service providers at the Nairobi Securities Exchange market.

### **1.4 Value of the Study**

It is necessary that as market trends change, different studies are conducted on organizations in the 'trendsetter' category to determine how they affect the economies in different parts of the world. It is imperative therefore that in every few years, a research be done on the stock exchange market and the different aspects that surround it in order to clearly determine the trend of the economy for planning purposes.

The pertinence of profit arrangement on stock cost involves significant significance to the administration who sets the approach, to the speculators who put resources into shares, and to the monetary financial specialists who attempt to comprehend and evaluate the elements of the capital markets. The aftereffects of this examination are essential in that it might edify administration of the recorded organizations on the impacts of profit payout strategy available offer costs and execution. The examination will prescribe measures for development which will help and illuminate them on the future profit arrangement of their organizations.

The examination may likewise be of an incentive to the controller, Capital markets Authority, and other government offices as the investigation will give arrangement proposals on the best profit approach in settling on sound financing and venture choices. Through the exploration one can have better comprehension of the components that ought to methodically influence firms' payout choices.

Stock exchange is a wide berth in the academic world, with different sectors of the market traded every day. In Kenya, allied sectors include; manufacturing, media, information technology, food and beverages, mining, construction and consulting. All these enterprises require a significant review to determine how best to enforce competitive measures such as taxation and incentives to encourage growth. This can only be done through research.

To the academicians and researchers; the investigation may likewise add to the group of information in fund train and all the more so in the zones of profit payout and stocks execution of recorded organizations. The investigation will likewise give helpful premise whereupon additionally ponders on profit arrangement could be directed.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This section covers the survey of writing identified with the examination. It begins by examining the hypotheses that guide the examination and afterward the audit of exact writing identified with profit payout and stocks execution of recorded. The part closes with a synopsis of research holes in the current observational writing.

#### **2.2 Theoretical Foundation**

This area of the examination talks about the hypotheses that are credited by different creators and researchers and are significant in managing the ideas of this investigation. The investigation is guided by Dividend Irrelevance Theory, Agency Costs Theory of Dividend Policy, Signaling Theory and High Bird-In-The-Hand Theory.

##### **2.2.1 Dividend Irrelevance Theory**

Profit superfluity hypothesis is one of the significant speculations concerning profit strategy in an endeavor. It was first created by Franco Modigliani and Merton Miller in a popular original paper in 1961. This hypothesis suggests that in a capital market where there are no flaws, for example, charges, exchange costs, awry data and office costs, the profit approach of an organization is immaterial for the market estimation of its offers. It accordingly infers that budgetary directors can't modify the estimation of their organizations by changing their profit strategy. They demonstrated that firm esteem is improved by putting resources into profitable resources and not by the path in which wage is conveyed to investors (Stulz, 2000). As indicated by their hypothesis, profit strategy is in this way insignificant and a sane financial specialist does not have an inclination amongst profits and capital increases.

MM's profit superfluity hypothesis says that trade operators can determine the outcome of a stock without considering the stocks profits or loses. For example, when an organizational profit is too high the finance specialist can choose to bring in more stock using the profits. On the other hand when the profits of an organization are low the finance specialist can choose to pitch a given amount to bring more profits to the organization. These only earns that the profit of the organization doesn't matter what matters is the strategy to pitch and create profits. As per Modigliani and Miller as referred to in Stulz, (2000), just the association's capacity to procure cash and hazard of its movement can affect the estimation of the organization.

For speculators who don't concur with the profit immateriality hypothesis, one purpose of dispute is that by not considering the sort of profit strategy that a given organization takes after, the financial specialist does not have the chance to settle on venture choices that are in accordance with his or her monetary objectives. For instance, if the financial specialist needs to make relentless income from speculations that can be utilized for everyday costs, purchasing securities where profits are paid on some kind of steady premise will go far toward setting up that coveted income. On the off chance that the financial specialist does not consider the profit approach before purchasing the offers, there is a decent possibility that this objective won't be met, despite the fact that the estimation of the stock may increment as the organization occupies assets into growing the business (DeAngelo and DeAngelo, 2006).

Depreciators additionally bring up that speculators ordinarily take a gander at the profit strategy related with potential ventures, just in light of the fact that there are charge suggestions. This implies a speculator must decide how the strategy associated with a given venture will increment or decline the assessments owed on ventures when charges end up noticeably due. On the off chance that the arrangement is probably going to increment charges without the chance to create enough come back to make the procurement beneficial, at that point the speculator will need to take a gander at another stock and decide whether the profit strategy

related with that security would be more positive. In the event that the speculator takes after the thought behind the profit unimportance hypothesis, there might be a vast and rather surprising taxation rate that must be settled. This can be taken care of by offering offers of stock that have acknowledged in esteem, viably counterbalancing the extra expenses (Allen, Bernardo and Welch, 2000).

The profit insignificance hypothesis is huge to this examination as it encourages us comprehend the idea that depends on the start that the profit approach of a given organization ought not to be considered especially critical by speculators. With this specific budgetary hypothesis, the thought is that speculators can simply offer a bit of their offers in the event that they need to produce some measure of income. Likewise, with most venture speculations, the profit immateriality hypothesis has its offer of supporters (Stulz, 2000).

### **2.2.2 Agency Costs Theory of Dividend Policy**

Organization hypothesis of profits guarantees that the installment of profits is one of the measures accessible to administrators for controlling office conduct. In particular, it is recommended that by prompting outside checking, profits diminish office costs (Jones and Sharma, 2001), in spite of the fact that in the meantime expanding the exchange costs related with raising outer assets. Organization costs are characterized as the misfortune to investors of controlling office conduct, through measures taken by them and by directors and additionally the expenses from any office conduct that has not been controlled (Manos, 2001).

The organization cost hypothesis recommends that, profit strategy is dictated by office costs emerging from the dissimilarity of proprietorship and control. Chiefs may not generally receive a profit approach that is esteem expanding for investors yet would pick a profit strategy that boosts their own particular private advantages. Making profit payouts which lessens the free money streams accessible to the supervisors would therefore guarantee that administrators amplify investors' riches as opposed to utilizing the assets for their private advantages (DeAngelo, DeAngelo and Stulz, 2006). The office costs hypothesis

sets that profits moderate the money under administration control, and along these lines lessening the likelihood that administrators will utilize the assets in their own particular self-premium. Profits may likewise control chiefs' propensity for overinvesting. Thusly, it is recommended that profits serve to lessen irreconcilable situation amongst administrators and investors. As profit installments lessen the overinvestment issue and organization costs, they may positively affect stock value, which is thusly the basic determinant of firm esteem (Al-Malkawi, Rafferty and Pillai, 2010).

Analysts, for example, Manos, 2001; La Porta et al. 2000 have deduced in their papers that profit installments are a vital gadget in decreasing organization clashes and in this manner office costs. Regardless of the possibility that the director decides the profit payout arrangement, the profit installments are a vital gadget in alleviating organization costs. Regardless of chiefs just dealing with a piece of the aggregate costs, the directors may likewise experience the ill effects of such self-intrigued conduct (Manos, 2001).

This hypothesis is basic to the investigation as it encourages us comprehend the idea of organization costs the way in which the organizations can decrease or alleviate office clashes. Firms are said to utilize their approach of profits to alleviate existing office clashes. For example in situations where supervisors utilize the company's assets for utilization that is to their greatest advantage rather than in light of a legitimate concern for the investors.

### **2.2.3 Signaling Theory**

The flagging hypothesis recommends that profit strategy can be utilized as a gadget to convey data about an association's future prospects to speculators. Money profit declarations pass on important data, which investors don't have, about administration's appraisal of an association's future benefit in this way diminishing data asymmetry. Financial specialists may along these lines utilize this data in surveying a company's offer cost. Profit approach under this model is in this way significant (Al-Kuwari, 2009). Myers and Bacon (2004) alluded to the

significance of profit income as a flagging gadget to investors. It was likewise obvious in their example that even with high development the firm will expand obligation to subsidize expanding profits. The organizations shrouded in Myers and Bacon (2004) specimen want to "put their cash where their mouth is" by sending a solid positive flag to institutional proprietors to improve notoriety and keep up access to capital. In Baker, Dutta and Saadi (2008) review, they detailed motioning as one of the essential factors that influence profit arrangement utilized by Canadian chiefs.

#### **2.2.4 High Bird-In-The-Hand Theory**

One option and more established view about the impact of profit strategy on an association's esteem is that profits increment firm esteem. In a universe of vulnerability and defective data, profits are esteemed distinctively to held income (or capital additions). Financial specialists lean toward the "flying creature in the hand" of money profits instead of the "two in the hedge" of future capital additions. Expanding profit installments, *ceteris paribus*, may then be related with increments in firm esteem. As a higher current profit diminishes vulnerability about future money streams, a high payout proportion will decrease the cost of capital, and henceforth increment share esteem. That is, as per the supposed "flying creature in-the hand" hypothesis (Al-Malkawi et al., 2010). Fledgling close by hypothesis recommends that a relationship exists between firm esteem and profit payout. It expresses that profits are less hazardous than capital additions since they are progressively sure. Speculators would in this way lean toward profits to capital additions (Amidu, 2007). Since profits are as far as anyone knows less hazardous than capital increases, firms should set a high profit payout proportion and offer a high profit respect boost stock cost.

The theories relating to dividend payout and profitability assist in developing a hypothesis for the study. They explain how different organizations determine their dividend formula as well as the impact this has on the organizations' growth. Indeed, it is especially the case that companies in the Nairobi Securities'



Exchange face challenges addressing dividend payout ratios where they suffer significant debt to equity ratios. The theories explore the different approaches companies have used in the past, and as studied by different scholars, they explain the impact of dividend policy decisions on the growth and stability of organizations. These theories will form an integral part of the discussions in this study.

### **2.3 Determinants of Stock Performance**

According to Tirunillai & Tellis, (2012), the stock market is a series of companies represented using stock ratios and market capitalization figures. In a stock market, each stock is monitored individually. To determine performance, the stock in a particular company is evaluated based on base point increase as compared to other companies. The main determinants as applied in many stock markets include; the market capitalization, the major gainers and losers, the shares traded at the close of the day and the share index. Market capitalization is the value of the stocks that day, calculated as sum of all shares multiplied by the cost per share. It offers a glimpse of the value of the company at a particular time. Some of the main factors that affect the determinants of stock performance include; board changes, such as resignation and appointments, product promotions, acquisitions/takeovers and negative publicity. Companies make every attempt within the law to ensure that they have the highest market capitalization possible. This ensures that companies perform to the expectations of investors, thus increasing investor confidence and subsequent investments (Tirunillai & Tellis, 2012).

### **2.4 Empirical Review and Research Gaps**

#### **2.4.1 Local Studies**

Profit approach is and a standout amongst the most talked about points and a center hypothesis of corporate fund which still keeps its conspicuous place. Numerous specialists introduced different speculations and uncountable exact confirmations. Ouma (2012) led an investigation to build up the variables

affecting profit strategy, profit issues, and clarifications for paying profits by review chiefs of profit paying firms recorded on the Nairobi Stock Exchange (NSE). His discoveries demonstrate that administrators see the most imperative determinants of profits as the dependability of income and the level of present and expected future income. They likewise trust that the impacts of profits on stock costs and needs of current investors are essential determinants. The proof demonstrates that chiefs of Kenyan firms see that profit arrangement influences firm esteem. Directors appear to concur that various speculations including flagging, providing food, and life cycle clarifications help to clarify why their organizations pay profits.

Yegon, Cheruiyot, & Sang (2014) in their investigation on the determinants of profit approach of the Kenyan Stock Exchange market discovered that the high gainful firms with more steady income can deal with the bigger money streams and in view of this they pay bigger profits. In addition, the organizations with quick development disseminate the bigger profits so as pull in to financial specialists. The possession focus does not have any effect on profit installments. The liquidity of the organizations has adversely affected on profit installments. Musiega et al., (2013) demonstrate that the profits paying firms are more gainful, huge in size, and developing. The corporate expense or duty inclination hypothesis doesn't seem to remain constant in Indian setting. Mokaya, Nyangara, & James (2013) discover profit payout approach choice of recorded firms in Ghana Stock Exchange is affected by gainfulness, income position, and development situation and venture chances of the organizations.

In a defective capital market which is the practical condition where there exists lopsided data, exchange and organization costs and charges and resources are not devisable superbly, it is likely that there exists a connection between money related structure of a firm and its venture choices (Mwangi, Makau & Kosimbei, 2014). Not exclusively do the measure of cash included and the tedious idea of profit payout make this theme imperative, payout strategy has a nearby connection with the vast majority of the company's speculation and other money related

approaches. Ongore (2011) uncovered that profits may likewise give deluding signs to the investors. Speculators should think about a profit ascend because of increment in the present wage or end of income issues or sense it as a negative indication of absence of venture openings or nonappearance of development choices. It is these holes that the present investigation expects to zero in by setting up the connection between profit payout and stocks execution of recorded business and administrations organizations in Kenya.

#### **2.4.2 Foreign Studies**

Obradovich and Gill (2013) did an investigation to out discover the connections among paying profits to the American administration organization, institutional proprietorship and corporate governance. The tow used a group of 296 firms from 2009-2011 which were used in the American NYSE (New York stock exchange) to carry out their study. The study found out that the there is a positive relation between paying profits to administration firms and board capacity. It also relates to the internalization of the firm and duality of the CEO. The conclusion was that there is a negative capacity of firm's possession when the size of the firm is held the same. They also discovered that holding money related usage constants brings a positive duality to the internalization of the firm, board size and duality of the CEO. On the other hand, holding the development of the company constant produces a negative capacity to the firm's possession.

An examination by Aviation, Booth and Clearly (2003) which looked to set up whether the developing business sector firms take after various profit approaches from U.S. firms distinguished diverse drivers of profit conduct in developing markets where the significance of bank obligation impact mentalities to the blend of advantages in an association's accounting report. The investigation recommends that gainfulness, showcase to-book proportion and obligation have diverse weights when profits are being figured. It contends that bank-based possession implies profits don't go about as a flag of high future free money streams or as a limitation on administration. It inspected the biggest firms' profit

arrangements for eight developing markets and the USA, including substantial quality, estimate, obligation proportion, return-on-value and yield, among different factors, and displayed a profit speculation. It concludes that productivity is especially huge, as is obligation, contrasted with the USA, and that profit installments are higher, with critical heterogeneity.

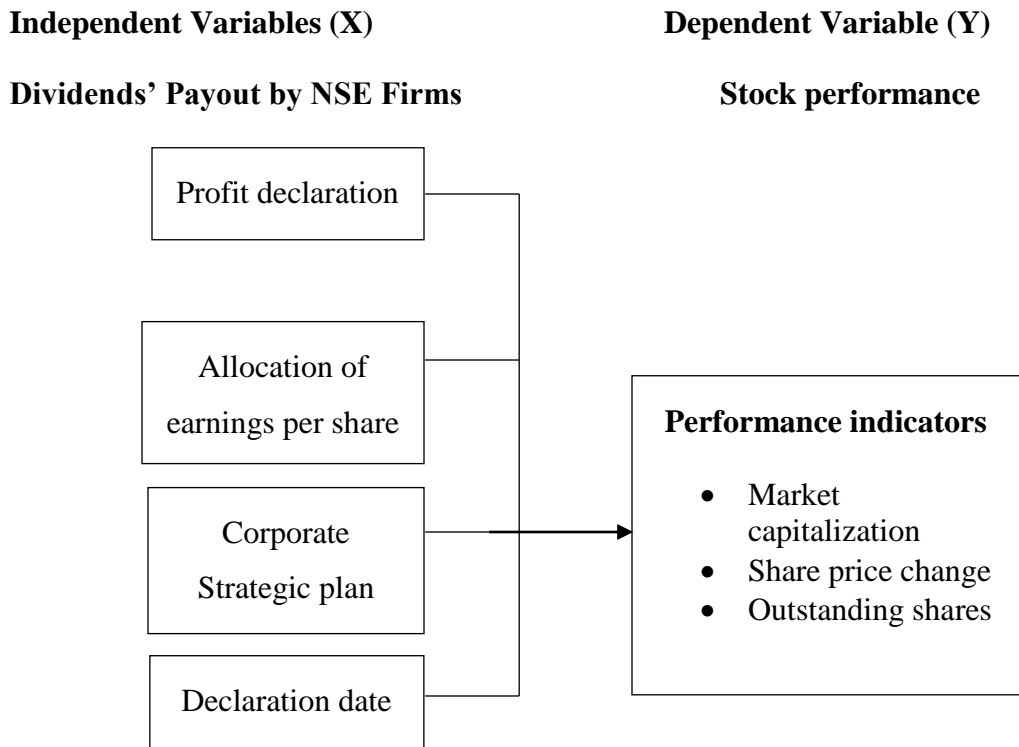
Government intercession and changes in government approach, especially with charge directions, have been analyzed by analysts to decide the impact on the organizations' profit arrangements. As per Bank, Steven, Brian and Marc (2006), government control is an essential mover of profit strategies. A few governments nearly control businesses and may confine profit spending by a rate to support certain sorts of development. These controls can change in view of governmental issues and are eccentric. Tax collection arrangements are a related government choice that can limit the measure of income a business needs to save (Gourevitch and James, 2005).

From the above writing survey plainly profit strategy is a convoluted issue which has dependably been begging to be proven wrong. Out of the few examinations on profit strategy subject, under lopsided data financing choices would bring about motioning of firm an incentive to the market in this manner effect on the securities esteem, while as indicated by the superfluity hypothesis of Miller and Modigliani in an immaculate capital market where there is no topsy-turvy data, under a given venture choice, the enterprise esteem is free from the financing choices so profit payouts would not have any effect on the firm esteem or investor riches.

## **2.5 Conceptual Framework**

The calculated structure shows the connection between the needy factors (stock execution markers) as influenced by the free factors, which are the parts of profit installment. The stock execution pointers incorporate; the nature of market capitalization in an organization; as delineated by the classification of organization the association is recorded, the offer value change of the organization's offer inside a timeframe, and in addition the quantity of exceptional

offers the organization has. These viewpoints demonstrate the position the organization is in finished a period, particularly inside the time of profit assertion and installment. Reliance issues therefore incorporate; benefit presentation, designation of income per share, explanation of the corporate methodology design, statement date for the profit income and additionally the installment date for the profits earned.



**Figure 1: Conceptual Framework**

Source (Self, 2017)

## 2.6 Summary of the Literature

Stock performance and dividend payouts have a lot in common. In the context of different markets, as reviewed in this study, companies have been seen to struggle with dividend payouts when their performance has been wanting. Many companies have had to deal with the incessant challenge of pleasing investors and preventing them from withdrawing significant assets by making

consistent dividend payments. The perception of loss or dip in profits has also been seen to be a reflection of poor stock performance. Indeed, while companies insist on making profits, capitalization, the most significant measure of stock performance has been attributed to client satisfaction. This goal and desire to ensure profitability, pay dividends and guarantee a high capitalization in the market has been a difficult balance to strike. Many studies have however not been able to concisely link stock performance to dividend payouts. It has been greatly related to profit margins. With the different variables at play, every organization has had to explore a strategy to best suit their needs and meet market requirements as well.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

The methodology chapter presents an explication of the research process. It details the activities that were done in order to achieve the research objectives, while avoiding omissions that may have rendered the research insubstantial. Every activity mentioned in this methodology was undertaken in earnest, within the time described and prescribed by the institution. It was sufficient time for the researcher to investigate the phenomenon of dividend payouts and how they affect stock performance in various institutions in the services sector, as listed under the Nairobi Stock and Securities Exchange market. The research methodology also prescribed significantly accurate instruments for measuring the validity, accuracy and relevance of information. This chapter also detailed relevant analytical tools and ethical measures to be considered in this research.

#### **3.2 Research Design**

The research design of a study defines the arrangement of research tools to offer an investigative approach from the onset to the completion of a study (Cohen, Manion, & Morrison, 2013). The design of any research determines how well the research meets its objectives. It also makes it possible for different tools and participants to duly offer their contribution when desired, in order to make the research effective and conclusive. For this research, the research design was carefully planned and crafted to achieve relevance and meet the particular needs.

For purposes of this study, a descriptive survey approach was undertaken. According to Kothari (2014), a descriptive study is undertaken where the sample

variables demonstrate variate characteristics consistent with time. In this study, the variables; dividend payouts and stock performance are aspects of organizational growth and performance that change annually. The trend either demonstrates a growth or decline in either of the variables. There is also the fact that the relationship between dividend payouts and stock performance across different sectors of the economy may indicate differing statistics. While determining these relationships, a descriptive study ensured that there was significant justification for the outcomes and findings explicated. This was done using tables, graphs and metrics represented in the statistical package for social sciences.

### **3.3 Population**

Creswell & Miller (2010) define population as the matter or subject of concern in a study. Indeed, the population can be considered the entire list of variables as relates a study. Most of the time, population refers to a set of people, places, items or even animals. However, where a study is the subject of evaluation between intangible phenomena such as company results, natural occurrences and unforeseeable circumstances, significant descriptive analysis is required. For purposes of this research, 12 firms listed at the Nairobi Securities Exchange were surveyed. The companies were all allied to the services sector and have been listed in the appendix section of this study.

### **3.4 Data Collection**

Since the phenomenon under study was majorly of numerical nature, secondary data was required. The research thus used secondary data collection methods such as; the use of journals, periodicals, websites and other publications to gather significant information concerning all the 12 companies. This information was majorly comprised of the performance of the companies for a five-year period between years 2011-2016. This was to ensure that the data used for the study was recent and reliable for analysis about the current situation in the Nairobi Securities' Services market. Data that formed significant portion of the study



included; profit declarations, annual sales reports, market capitalization, average annual share price and respective dividend sharing formulae.

### **3.5 Data Analysis**

In order to get proper analysis of the data, there was need for regression analysis. An appropriate regression model was chosen for the study and applied to ensure that it brought out a significant relationship between the dividend payout and the stock performance of the companies. To support this regression, the statistical package for social sciences (SPSS) was used to guarantee accurate findings. The appropriate regression model made use of multiple regression analysis. This took advantage of the nature of the data to ensure proper descriptive analysis as well as inferential analyses. The appropriate SPSS analysis was presented alongside the descriptive analysis of the observed phenomena.

#### **3.5.1 Analytical Model**

The analytical model to be used in the study was a function of the dividend payout against the stock performance. However, since the dividend payout was a function of other factors, these factors were considered in the linear equation as well. The equation is as follows;

$$Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \varepsilon$$

Where;

Y = Stock performance of organization based on Sharpe ratio (Portfolio return-risk free rate/standard deviation)

X1 = Dividend Payout ratio of the particular organization

X2 = Value of organization's balance sheet

X3 = Debt to equity ratio

$\alpha$  = the constant term, chosen as the specific ratio common to all companies in the services and allied sector of the NSE

$\beta_i$  = sensitivity coefficient, determined by the specific version of the analytical tool used, in this case the SPSS

$\varepsilon$  = is the error term also provided as a constant by the relevant tool, to ensure normal distribution of the data

The stock performance shall be based on the capital asset pricing model (CAP) that considers total risk to compare portfolios to the capital market line. This is because the data gathered on stocks will be comparative in nature and will require a basis for comparisons.

### **3.5.2 Test of Significance**

In order to test the significance of the data analyzed, two tests were conducted on the results emanating from the model. The first test was the F-test; which was the test of the null hypothesis on the specific data, to ensure that it was consistently incommensurate and undeterminable under the situation of a null hypothesis. The second test was the t-test, which was the tests of the means of the different company data, (particular measure chosen was the stock price) to ensure that they were statistically different. This was to ensure that the data used was not generally a duplicate and thus can offer statistically analytical data. These tests proved the independence of the data with a relevance level of 95%.

### **3.6 Ethical issues**

Ethical research metrics are required for any scientific study. It was necessary that there be a moral backing for the process. This implied that the research should be taken in all manner of honesty that was desired of the academic standards in place. Indeed, it was necessary that there be a transparent and verifiable way to investigate and determine the validity of a research. For this reason, the researcher was bound by all laws requiring their commitment to proper conduct while undertaking the research. Some of the measures to ensure an ethical process include; proper authorization to use any data that shall be represented, a guarantee that all the work in the document reflects the author's own work and where other work has been used, it was duly quoted. Aside from these measures, this research

was done in accordance with the University guidelines to ensure a credible research, with significantly accurate scientific findings.

## **CHAPTER FOUR**

### **DATA ANALYSIS, RESULTS AND DISCUSSION**

#### **4.1 Introduction**

The fourth chapter of this thesis presents an analysis of the findings that were realized from the study. The survey of companies listed in the Nairobi Securities' Exchange service sector. The study incorporated the 12 companies listed in Nairobi Securities Exchange Services and allied category. The data used in this analysis was drawn from the respective financial statements of the companies for a five-year period between years 2011 to 2015.

#### **4.2 Descriptive Statistics**

Every sample has a set of indices that describe the nature and composition of the data. These indices are referred to as descriptive statistics (Mugenda, 2003). The purpose of descriptive statistics is to presents an analysis capable of enabling one to define, describe and summarize the raw statistics gathered to offer some meaningful explanation of the dataset. This offers simpler interpretation to a rather complex phenomenon. The use of descriptive statistics also provides a simple summary on the observations that have been made, in order to allow further explication of the phenomenon by the researcher. The common descriptive statistics are measures of central tendency. These are the mean, the standard deviation and the median of the data gathered. Table 4.1 summarizes the descriptive data on the 12 variables analyzed. The descriptive statistics sums up variables from the 12 companies for easier analysis of the variables.

**Table 4. 1: Descriptive Statistics**

<b>Variable</b>	<b>Mean</b>	<b>Std. Deviation</b>	<b>Maximum</b>	<b>Median</b>	<b>Minimum</b>
-----------------	-------------	---------------------------	----------------	---------------	----------------

ROA	0.2317	0.4795	0.7998	0.0873	-2.7430
SIZE of FIRM	14.856	0.9456	17.3431	13.4566	13.1339
DIV.PAYOUT RATIOS	0.7495	0.5473	1.0000	1.0000	0
LEVERAGE ANALYSIS	0.6328	0.6234	7.9382	0.6221	0.0003

Source: Research Summary Description from Primary Study

The results from the raw data were further broken down into specific analysis of the measures of central tendency that greatly encompassed the 12 companies. This pre-analysis was necessary to establish distinct variables for further use. The summary on table 4.1 presents the significant descriptive statistics for the dependent and independent variables in the research. The Independent variables that were assessed include; dividend payout, which was measured as the ratio of the dividend per share given to the stakeholders. The Size of firm was calculated as the natural logarithm of combined asset values of the 12 listed firms. The ratio of firm leverage was evaluated as the total ratio of the cumulative company debts divided by the total value of assets of all the companies.

The ratio of mean Return on Assets, which was measured by using firm pre-tax profits divided by the book value of assets contributing to the returns of the 12 firms was 0.2317. The median value in this estimation was 0.0873. The standard average (mean) of the dividend payout ratios in all the companies was 0.7495. This implies that, averagely, more than 74.95% of the services sector firms listed on NSE have a policy to pay dividend with the average dividend payout ratio. This ratio is measured as Dividend Per Share/ Earnings Per Share. The firms thus pay about 25% of their profits as dividends, while retaining 75% of the profit. The firm's size, which was as calculated as the natural logarithm of combined book assets, returned a mean of 14.856, while the median was 13.4566. Leverage, calculated as the sum of company debts expressed as a ratio of the combined equity returned a mean of 0.6328, also presenting a median score of 0.6221.

### 4.3 Inferential Statistics

The use of Inferential statistics in this study was necessary to have statistics that would ensure that analysis of population was critically assessed from a relational perspective. The inferences would ensure that generally common statistics about the sample would be realized and noted from the spatial distribution of statistics. As Mugenda (2003) notes, inferential statistics enable researchers make generalized contributions about a sample of data. Regression analysis, correlation analysis and analysis of variance were used to establish the inferential relationship of the data in the study. The findings were analyzed and presented as shown;

#### 4.3.1 Regression Analysis

The use of regression analysis in the study was motivated by the relational model that was established as being most relevant in establishing a relationship between the variables. The analysis was done to establish the relationships that existed among the different variables noted in the research. This was done using Statistical Package for Social Sciences (SPSS). The final results were presented in a tabular format as shown in table 4.2.

**Table 4. 2: Regression Model Results**

Variable	Coefficient	Std. Error	t-statistics	P-values
Constant	0.085894	0.057363	1.806331	0.0859
Dividend Payout	0.513128	0.073273	5.732663	0.0000
Firm Size	4.77235	4.76729	2.213518	0.0001
Leverage	0.008012	0.037679	-0.687728	0.5819
R-Squared	0.732426		Mean dependent var.	0.393718
Adjusted R-	0.887605		S.D dependent var.	0.434219
S.E of regression	0.353619		Sum squared residue	7.425764
Probability (F-	0.000000		F-statistic	8.915682
Durbin-Watson	1.842692			

Source: Research analysis Findings from regression model

The data in Table 4.2 represents the results of the regression analysis, showing the relationship between the dividend payout and the stock performance. The ratio used to analyze the relationship is the R-squared statistic, whose result returns 0.732426, demonstrates that; about approximately 73.2426% of the effective changes in the dividend payouts is affected by the variables of stock performance, in this case demonstrated as; firm size and leverage ratio.

The Durbin Warton statistic value of 1.842692 demonstrates that auto-correlation is highly improbable since the value is almost 2, the perfect DW score.

The T- ratio was also used to test for the statistical significance of the findings. The test revealed that the stock performance; indicated by the dividend payout and the size of the firm was statistically significant. This was demonstrated by the fact that the observed T- values were positive and basing on the 'rule of thumb' of 2; they were more than the anticipated value. These variables presented statistical values of 5.7327 and 2.2135 respectively. The Leverage value was not statistically significant due to the t-value was -0.687728, which was determined as being less than the threshold rule of thumb, which is 2.

The results demonstrated a positive and viable relationship between dividend payout and stock performance of service sector allied companies in the Nairobi Securities' Exchange. The significance of the positive coefficient value established by the regressor, dividend payout indicated that, by paying dividends, firms ended up with a positive growth of the company stock. This was because; it influenced the financial position of the company, with regard to the confidence of the investors.

The initial regression equation was;

$$Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \epsilon$$

Upon performing the regression analysis, the established linear regression equation becomes:

$$Y = 0.085894 + 0.513128X_1 + 4.77235X_2 + 0.008012X_3 + 0.037679$$

The constant in the regression equation returns a value of 0.085894. This value implies that; if all the variables were rated as zero, the stock performance of the services sector allied segment of the Nairobi Securities Exchange would be 0.085894.

The results from the regression model also revealed that Dividend Payout was a substantial factor that influenced the stock performance as determined by the regression analysis. The P value for dividend payouts among the 12 companies was 0%; indicating that it has a 100% significance rate. It was indeed the main factor that affected stock performance among companies, regardless of other variables involved. This significance is represented across the board in table 4.2.

The Firm's size (value of the organization's balance sheet) was also a relevant contributor to the stock performance as shown by the regression analysis. The P value of 0% indicates that the organization's strength in investments and assets greatly affects its performance, which is a common business interpretation. This demonstrates that if the value of the organization's balance sheet increased by 1 unit, then the stock performance would increase by 4.7723 units.

From the regression analysis, it was established that the Leverage was an insignificant factor in the research. Its impact on the stock performance of the organizations returned a P value of 0.5819%. The leverage coefficient would also increase the stock performance by 0.007999 units. This implies that it would generally not affect the regression equation and can be truncated.

#### **4.3.2 Correlation Analysis**

The correlation analysis that was done in this study sought to establish the varying relationships between the variables. These statistics would further explain how the variables interacted with regard to the influence they had on the stock performance of the companies. The ratios indicate varying degrees of relationship based on the Person Correlation analysis done on all the variables in the research.

#### **Table 4. 3: Correlation between the variables Coefficients**

Correlations	ROA	PAYOUT	FIRM SIZE	LEVERAGE
ROA	1.000**			
PAYOUT	.769**	1.000*		
FIRM SIZE	.784**	.363**	1.000**	
LEVERAGE	.695**	.621**	.281**	1.000**

Source: Analyzed correlations coefficients from Research Findings

\*\* Significance at  $p < 0.001$  level (2 tailed) \*Significance at  $p < 0.05$  level (2 tailed)

The correlation analysis results showed that the Dividend Payout was positively associated to the return on assets, demonstrated by a coefficient value of 0.769. The correlation between Dividend Payout and the Leverage also indicated a positive direct relationship of 0.621. ROA was also positively associated to the firm size by the correlation analysis, with a coefficient of 0.784. The research findings also indicated that the leverage and the firm size were positively related, with a coefficient value of 0.281, though quite insignificant. The findings imply that the independent variables and the dependent variable all had a positive relationship.

### 4.3.3 Analysis of Variance

The study employed the use of ANOVA, a statistical technique for analyzing and testing the variations among the mean/averages of the data sets. ANOVA also provides for a statistical technique to determine the tendency of averages among different variables to be equal, thereby generalizing these variables in a statistical analogy based on a t-test comprising two or more groups (Mugenda, 2003).

**Table 4. 4: Generalized statistics for analysis of variance**



Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.636 <sup>a</sup>	.633535	.881605	.0397

Source: Pre-evaluated statistics for analysis of variance

The analysis presented in tables 4.4 and 4.5 demonstrates that the coefficient of determination,  $R^2$ , equals 0.633 that is, Dividend Payout, Firm Size and Leverage leaving only 35.8 percent to unexplained variables not covered by the model. This is the value of the percentage in variation between the values in the dependent variable as they are evaluated by the fluctuations in the independent variables of the research. The three independent variables in the research thus account for 63.4% (R Square, 0.633535) of the fluctuations of the stock performance.

**Table 4. 5: ANOVA Findings**

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	94.233	4	22.695	8.865225	.000 <sup>a</sup>
Residual	52.641	40	.278		
Total	146.874	44			

Source: Research Results on analysis of variance on variables

Significance level:  $p < 0.001$ ;

Overall model:  $F = 8.865225$ ;  $p < 0.001$ ;  $R^2 = 0.633535$ ; Adjusted  $R^2 = 0.881605$

The study performed the ANOVA to establish the viability of the model. The findings from the ANOVA (P- value of 0.001) as demonstrated in table 4.5 demonstrates that there is a relationship the independent variables and the dependent variable. The F value of 8.865225, from the research, calculated at a significance level of 0.001 showcases the varying statistics between the groups of data, as a ratio of the variance within the groups. This demonstrates insignificant variations in the data within the groups thus relevant cause for justified correlation.

#### **4.4 Interpretation of the Findings**

The objective of this study was to establish the relationship between dividend payout and the stock performance of service sector and allied firms listed at the Nairobi Securities' Exchange. From the descriptive statistics done, it was established that the dividend payout ratio, which was measured as Dividend Per Share/ Earnings Per Share had a mean of 25.05% and a median of 28.87%. The implication is that most of the companies in the services and allied sector of the Nairobi Securities' Exchange offer 25% of earnings as dividends with 75% of the earnings retained. The dividend payout ratio thus ensured that most of the company's income was reinvested, thus a precipitant for the success of the company.

Regression analysis returned a constant of 0.085894. The Dividend Payout coefficient ( $X_1$ ) was determined as; 0.513128, indicating that the dividend payout affected the stock performance by a factor of 0.513128 at the Nairobi Securities' Exchange. The Firm's size, represented by the coefficient  $X_2$ , was determined to be 4.77235. This was the second most significant factor that affected the stock performance of the organizations. The value of Leverage, represented by the coefficient  $X_3$ , was 0.008012, thus the most insignificant variable among the independent variables in the research.

The findings of the correlation analysis and the analysis of variance (inferential statistics) indicated that the three independent variables, dividend payments

policy, the firm size and the leverage of the organizations accounted for 63.35% (R Square, 0.6335) of the variations in the dependent variable. They thus presented a significant cause for justification of the research hypothesis that indeed, the dividend payout influenced the stock performance of companies listed at the Nairobi Securities' Exchange.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter details an account of the summary of the findings. The chapter also discusses the major conclusions that can be drawn from the research, as well as offering recommendations. The last subtopic of the chapter mentions the areas for further research that can be explored by future researchers.

#### **5.2 Summary**

The study sought to investigate relationship between the dividend payout ratios used by an organization as well as other mechanisms of dividend payouts and how this impacted on the stock performance of the organization over a given period of time (five financial years). The study population was the companies listed under the services sector of the Nairobi Securities' Exchange. So as to achieve the objectives of this research, data from the 11 companies listed under the services sector of the Nairobi Securities' Exchange was obtained between the years; 2011-2015. A preliminary analysis of the data revealed that there were four key variables that could explicitly bring out the relationship between dividends' payout and stock performance. These variables are; ROA (Return on Assets), Payout Ratio, Firm Size (Market Value Ratios), and leverage ratio (ratio of capital financed from debt). Various analyses were done using measures of central tendency and dispersion. A summary of inferential and descriptive statistics revealed that the dividend payout of the listed companies was positively related to the firm's stock performance.

From the results in the analysis chapter, a positive and significant relationship was established between the dividend payout and the stock performance of the company. This is commensurate with the findings from the literature review that dividend payout ratios were among the factors considered by investors before investing in organizations. According to Brealey, Myers, & Allen (2005),

companies that paid their dividends in a concise and consistent way always ended up with positive growth trends in their market capitalization.

According to DeAngelo DeAngelo & Stulz (2006), dividend policy affects a firm's share price. This policy determines the payout models and indeed, the gains an investor would make by investing in the organization. The factor of firm size in this research was also evaluated as a measure of the company's growth. Indeed, this was a ratio of the profits returned against the market capitalization each year. From the research, it was established that indeed, the size of the firm was another factor that considerably affected the stock performance. However, the size of the firm was greatly influenced by the dividend payout ratio. According to Manos (2002), companies that have the financial ability to do so, often pay their dividends on time regardless of the prevailing conditions.

### **5.3 Conclusions**

The study findings significantly demonstrated a positive relationship between the dividend payout of the services and allied companies listed in the Nairobi Securities Exchange and the stock performance of these companies. The research analysis basically proved that there was a relationship between the main determinants of stock performance and the dividend payout aspects. The stock performance was indicated using variables such as leverage, firm size and return on investment. All the three factors were correlated against the dividend payout and the relationship evaluated linearly. The correlations established a positive linear relationship between the dependent variable (stock performance) and the independent variable (dividend payouts). A similar study by Hoover (2015) also concluded that the dividend payout ratios in an organization affected the performance of the company's stock. Tirunillai & Tellis (2012) posit that indeed, where there is a consistent ratio for paying dividends, organizations often show a steady increase in performance, often associated with investor confidence.

Several other conclusions can be made from the study. Firstly, it can be established that large companies tend to pay more dividends due to their revised ratios that see investors receive more of the profits as the company grows. This is in line with the findings by Kanwal & Hameed (2017), who argue that the size of an organization often depicts how much dividends per earning the shareholders receive. The companies listed at the Nairobi Securities' Exchange were of fairly above average performance. However, among them, were companies with a much greater balance sheet than the rest. This performance disparity meant that averaging the size of the companies at the Nairobi Securities' Exchange would require a ratio that was practical to all. Nonetheless, the study demonstrated that the dividend payout ratios were affected by the size of the organizations involved.

The leverage ratio was an aspect of the study that revealed a lot about company performance. The leverage ratio is mostly affected by agency costs. Indeed, the study demonstrated that a majority of firms often paid their dividends at the Nairobi Securities' exchange to avoid these agency costs. The agency cost factor is determined by the rate of dispersion of ownerships and the inability of stakeholders to monitor firm performance. As the dividend payouts fail to be made, agency costs are incurred. This increases the need for external financing, an aspect that lowers the stock performance of an organization. According to Amidu & Abor (2006), dividend payouts should be made on time, using structures that are monitored by the finance market to ensure the avoidance of agency costs.

The study evaluated the concept of Return on Assets as a factor that influenced dividend payouts. For most companies in the Services sector of the Nairobi Securities' Exchange, the dividend payout ratio was an aspect of the returns on the assets the companies invested. However, investment in assets drew liabilities from maintenance costs and recurrent expenditure. The balance between these factors was also an issue that influenced the profits made. Wang (2010) argues that while assets can bring about hidden costs in an organization, they are necessary with

regard to the growth of the balance sheet. This boosts the consumer confidence in an organization and greatly increases the stock price.

#### **5.4 Recommendations for Policy Enhancement**

The study made the following recommendations;

First, the companies listed under the services sector of the Nairobi Securities Exchange need to ensure that they have a consistently potent and robust dividend payout policy that is in conformity with international standards. This ensures that the investors it attracts are not only local but international as well. A great dividend payout policy also guarantees consistent monitoring of company performance as annual results are released. Above all, for healthy profit management and reinvested profits, it is necessary to stabilize the payouts made annually. This can only be done using a consistent payout formula.

The study recommends that the existing policies and laws governing the dividend payout in the Nairobi Securities' Exchange need to be strengthened by being legislated further in parliament. There should be laws to encourage organizations to pay their dividends more frequently. This ensures that the market value of organizations is always increased owing to positive investor confidence in these organizations. A lot of aspects of stock performance are based on perception rather than reality. Indeed, while organizations are required to always disclose their financial books, it is the period between reporting that greatly affects stock performance. During these periods, the company should do everything in its power to boost stock performance. One way to do this is to consistently pay dividends and encourage investors to invest in the organization. Government should however closely monitor these efforts to discourage creative accounting and insider activity.

Organization executives should exploit other forms of dividends payout other than cash dividends. The most relevant of these alternatives is the issuing of bonuses. Companies should also consider occasional stock splits that would be used to increase the investor's ownership and encourage a rallying of the company share.

These aspects of extra dividend payouts should be based on previous stock performance.

The Capital Markets Authority (CMA) needs to put in place measures to dissuade directors from investing in non-profitable ventures. This should ensure the protection of investor funds to a great extent.

### **5.5 Limitations of the Study**

The study results are conclusive and verifiable. However, there are certain limitations on the study that come about the inability to analyze data from all the companies listed under the Nairobi Securities' Exchange. There is thus the possibility that the organization listed under different sectors such as oil and gas, manufacture and financial services and consultancy could return different results. The research only focused on the services sector, thus these results generally apply to that particular sector. The other significant limitation in the research was the duration of the data analyzed. The results demonstrated a five-year analysis of performance from these companies. While five years is a significant amount of time, it is not necessarily a reflection of the performance of this sector due to aspects that happen within the timeframe. One common concern is the political factor, which often crops up in the country. Economic depression, inflation and other variables in the research were ignored as well.

### **5.6 Suggested Areas for Further Research**

It would be of interest if future research explores the influence of profitability of organizations and the dividend policy, basing it on how it is affected by aspects such as changes in tax policy, the legal restrictions and financial leverage. The research in this case did not consider the issue of profitability, yet it is an important variable, given that some organizations did indeed post negative profit results. Future research should also be encouraged to investigate the relationship between the financial performance of listed firms at the Nairobi Securities' Exchange and the factors such as shareholder expectations and the capital structure, that greatly influence the dividend payout in an



organization. The research should also be extended to organizations that are not listed under the Nairobi Securities' Exchange. This would help in the generalization of results to all sectors in the services and allied industries in Kenya. The ratios that affect the profitability of an organization such as Return on Equity and the consistent factors influencing the performance of the stock market need to be evaluated to establish other linear relationships and how they affect the stock performance in an organization. The research should possibly demonstrate how they affect dividend payout.

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## **APPENDIX 1**

### **LIST OF COMMERCIAL AND SERVICES COMPANIES LISTED AT NAIROBI SECURITIES EXCHANGE**

Express Ltd

Kenya Airways Ltd

Nation Media Group

Standard Group Ltd

TPS Eastern Africa (Serena) Ltd

Scan group Ltd

Uchumi Supermarket Ltd

Hutchings Biemer Ltd

Longhorn Publishers Ltd

Atlas Development and Support Services

Deacons (East Africa) Plc.

Nairobi Business Ventures Ltd