EFFECT OF DIVIDEND POLICY ON FINANCIAL PERFORMANCE
OF AGRICULTURAL FIRMS LISTED AT THE NAIROBI
SECURITIES EXCHANGE

BY

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DECLARATION

This research project is my original work and has not been submitted to any other college, institution or university.

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

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DEDICATION

This study is dedicated to my beloved wife Hamdi Mohamed and my daughter Tazneem.
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ABBREVIATIONS AND SYNONYMS

D/E : Debt to equity ratio

EPS : Earnings Per Share

NPV : Net Present Value

GDP : Gross Domestic Products

MM : Modigliani and Miller

CMA : Capital Market Authority

NSE : Nairobi Securities Exchange

ROA : Return on Assets

ROE : Return on Equity

ROI : Return on Investments

SPSS : Statistical Packages for Social Sciences
ABSTRACT

Dividend payment is the most crucial part in firm’s decision making as the management has to come up with the decision which will benefit both the firm and the shareholders. As such, the topic has been studied by numerous scholars but the results still remains ambiguous. The research objective is to establish the effect of dividend policy on financial performance of agricultural firms quoted at NSE. Descriptive research design and a total of seven firms which make up the Agricultural segment at NSE formed the population of the study. Secondary data was entirely adopted to carry out the study and the data covered a period of ten year for the period between 2007 and 2016. Descriptive statistics was the preferred method to carry out the analysis of the data. The results established a strong and positive correlation linking dividend payout ratio and financial performance. Further, the study found an insignificant positive correlation linking the mode of dividend payment and the agricultural firms’ financial performance. Additionally, weak inverse correlation linking financial leverage, firm size and the financial performance of the listed agricultural firms was revealed. Finally, a strong direct association was established linking asset structure and financial performance the quoted agricultural firms at the NSE. It concluded that dividend payout significantly affects agricultural firms’ financial performance. It further concluded that the financial performance of agricultural firms is significantly influenced by their assets structure. The study recommended that the agricultural firms’ managements should come up with an optimal dividend policy and invest in adequate assets to enhance profitability among these institutions.
CHAPTER ONE: INTRODUCTION

1.1 Background of the study

Dividend payment is the most crucial part in firm’s decision making as the management has to come up with the decision which will benefit both the firm and the shareholders (Enekwe, Nweze&Agu, 2015). It’s vital to all stakeholders as it’s an indicator of the going concern which will be a key aspect to employees due to job security and potential investors as well as they have to be ensured that their investments will yield high returns (Priya&Nimalathasan, 2013). Dividends are rewards, which are, disseminated to shareholders for the time and risks undertaken in doing investment with a firm (Khan et al., 2016). It’s believed to be one of the major decisions the management has to make to ensure going concern principal continues to hold (Uwuigbe, Jafaru&Ajayi, 2012).

The MM theory contends that payout policy doesn’t have any effect on the dividends earned by the shareholders assuming perfect market exists (Shisia et al., 2014). Bird in hand theory asserts that the correlation linking firms valuation to dividends is determined by an individual investor preference of dividends rather than the capital gains (Priya&Nimalathasan, 2013). The signaling theory supports that investors can use dividend payout to predict about the company future financial performance based on the signals that come from the announcements of dividends. The agency theory supports that high dividend payout leads to decrease in agency costs hence improving firms’ performance (Priya&Nimalathasan, 2013).
Agriculture development in Kenya is the most critical sector owing to its significance in food security and employment creation. Agriculture is believed to be the backbone of the country’s economy as it’s the major contributor to the GDP in Kenya (Odalo, Achoki & Njuguna, 2016). The country is a developing nation where the industrial sector is less developed as compared to developed nations hence agriculture is the main contributor to the GDP. The Kenyan Government has also identified agriculture as a major sector which contributes massively to the other sectors and industries in the country (Omboi, 2011). Agricultural companies thus have the potential of enhancing economic growth by providing raw materials and market for good quality produce in large quantities and being catalysts for increased production of farm produce (Odalo & Achoki 2016).

1.1.1 Dividend Policy

This is a term used to imply to the amount distributed to the shareholders from the revenues generated (Enekwe, Nweze & Agu, 2015). This is the most vital decision the management of any firm have make pertaining the revenues to be distributed to the shareholders for their investments in the company since their rational and aims at maximizing on their investments. Uwuigbe, Jafaru and Ajayi (2012) posit that in order to come up with the best decision that would suit all the stakeholders, the company has to come up with various alternatives whereby, they’ll choose one which maximizes the shareholders wealth as well as the interest of the firm which has to have enough cash to invest in long term projects (Priya & Nimalathasan, 2013).

The main dividend policy include; residual payment policy, constant payout ratio policy, the stable predictive dividend policy and the low plus extra or bonus policy. The residual
payment occurs where the dividends are set at equal proportion to the amount to be retained for expansion purposes (Shisia et al., 2014). The policy is referred to residual due to the fact that the dividends to the shareholders are allocated after the company has used the annual revenues for investment purposes. The policy reveals that the dividends advanced to the shareholders are surplus funds to the companies (Priya & Nimalathasan, 2013).

A policy is referred to as stable when the annual dividends are increasing at a constant rate and in a predictable manner. Stable dividend policy, implies dividends don’t fluctuate frequently as they remain constant over the period (Mayech, 2012). However, the earnings of any firm are known to fluctuate frequently year in year out (Mayech, 2012). Many firms using this policy usually have a bonus policy to top up to the shareholders particularly when the financial year was good and the firm made windfall profits. This policy is beneficial to the firm as it gives an assurance to the investors of assured earnings for the funds invested. As per the low plus extra or bonus, the dividends are set at level which can be maintained by the firm even at times when the earnings are poor but a bonus is given when the macroeconomic conditions are good and the firm is reporting high returns (Shisia et al., 2014).

The main factor in firm’s dividend policy is balancing between the amount to be retained in the firm for investment purposes and the amount to be advanced to the shareholders who are the financiers of the company (Shisia et al., 2014). The shareholders are not only interested in the dividend policy for the earning associated to it but the going concern of the firm as dividends are the main indicator (Enekwe, Nweze&Agu, 2015). Payout ratio is calculated by finding the ratio between total dividends and earnings per share (Turakpe&Fiiwe, 2017).
1.1.2 Financial Performance

According to Valentin, (2014), financial performance is the efficiency with which a firm uses its resources in generating revenues. It’s also used as a proxy for measuring the stability of a firm over a certain period as well as for comparison purposes in similar sector as well as revealing its going concern (Nyabuti & Alala, 2014). Majority of the investors consider the financial performance of firms first as they believe firms with high turnover ratios is more stable as well as going concern of the firm (Turakpe&Fiiwe, 2017).

Many firms are driven by profitability motives for firms engaging in businesses as firms constantly making losses will in the end be insolvent (Yegon, Cheruiyot & Sang, 2014). Financial performance is a major factor in management decision making as they develop firms strategy and projections from the reported annual revenues (Valentin, 2014). The notable measures of financial performance in companies are ROA, ROE and net margin on sales (Turakpe&Fiiwe, 2017). The return on assets (ROA) ratio is the most preferred financial measure since it ascertains the best investment plans (Bhunia, Mukhuti & Roy, 2011). ROA measures how profitable an asset is in generating revenue, a firm’s ability to generate income from proper utilization of the resources available (Turakpe&Fiiwe, 2017).

1.1.3 Dividend Policies and Financial Performance

The dividend policy adopted by a firm and its effect on their performance remains a puzzle and one the debated issues to date. The Miller and Modigliani assert that dividend policies have no impact on the valuation of a firm particularly in a perfect market (Oppong, 2015). However, the signaling theory contends that investors can use dividend payout to predict about the company future financial performance based on the signals that come from the
announcements of dividends. (Priya & Nimalathasan, 2013). The bird in hand theory asserts that the correlation linking firms valuation to dividends is determined by an individual investor preference of dividends rather than the capital gains (Malik & Maqsood, 2015). The agency theory contends that high dividend payout leads to decrease in agency costs hence improving company profitability (Yegon, Cheruiyot & Sang, 2014).

Several empirical studies also exist on correlation linking dividend policies profitability of companies. Yegon, Cheruiyot and Sang (2014), study found an existence of a strong significant direct association linking dividend policies of organizations and firm’s ROA; their study further revealed a significant direct correlation linking dividend policies to EPS of pharmaceutical firms in Kenya. Another study by Rehman and Hussain (2013) examined the influence of dividend policies on returns of firms and revealed an existence of strong relationship between dividend policies on firm returns. In their study, Okibo and Chateya (2013) observed that dividend policies are vital to the overall well-being of a firm as they leads to improve performance of stock prices in securities market. Malik and Maqsood (2015) found that profitability has an insignificant negative relationship with dividend payout.

1.1.4 Agricultural Firms Quoted at the Nairobi Securities Exchange

NSE previously known as Nairobi Stock Exchange was constituted under the society act. The NSE major duty is regulating the purchasing and selling of stocks in order to ensure those in need of money and those with excess funds at low cost (Nyabuti & Alala, 2014). This is the largest stock exchange in the East African region consisting countries such as Uganda, Tanzania, Rwanda, Burundi and South Sudan. CMA is a regulatory body, which
comes up with the rules governing the market to ensure smooth running of NSE (Shisia et al., 2014). It’s a requirement for each and every firm at NSE to follow the laws designed by the CMA in an effort to ensure improved performance of all firms (Nyabuti & Alala, 2014).

The NSE is divided into 4 sub segments namely: Main Investments, Alternative Investments, Fixed Income (Yegon, Cheruiyot & Sang, 2014). The listed firms at NSE are further subdivided into various industries; Agricultural, Commerce, Technological, Banking & Insurance, Investment, Manufacturing and Allied, construction and Energy (Nyabuti & Alala, 2014). The Agricultural sector consist seven firms; Kakuzi, Rea Vipingo plantations, Sasini, Kapchorua Tea, Limuru Tea, Williamson Tea and Eaagads (Kioko & Maroa, 2016).

The sector in the recent times has been hugely affected by unpredictable and extreme weather conditions which have led to huge losses hence ever declining revenues in the sector. Due to the fact that the sector is the country’s economic back bone, the country’s GDP has been declining in recent years (Odalo, Achoki & Njuguna, 2016). Other factors such as the global financial crisis which has made the country’s currency weak compared to international currencies has impacted on the reported decline in sectors revenues as major products as tea and coffee generate revenues from foreign exchange (Njagi, 2013). The Kenyan agricultural companies also suffer from basic management challenges which is synonymous not only in the sector as it cuts across all the sectors of the economy (Omboi, 2011).
1.2 Research Problem

Dividend policy is the most crucial part in firm’s decision making as the management has to come up with the decision which will benefit both the firm and the shareholders at equal measures (Priya&Nimalathasan, 2013). Many scholars have in the past studied the Dividend policy phenomenon but their study results have revealed ambiguous (Uwuigbe, Jafaru&Ajayi, 2012). The theoretical perspective by Miller & Modigliani contends; payout policy doesn’t have any effect on the dividends earned by the shareholders assuming perfect market exists (Uwuigbe, Jafaru&Ajayi, 2012). However, the relevance theories including the bird in hand, signaling and agency theories which posits dividend policy is vital in influencing firms’ valuation. Thus, this creates ambiguity on whether dividend policies impact on firms’ valuation (Priya&Nimalathasan, 2013).

The agricultural sector is the backbone of Kenya’s economy and the agricultural companies contribute immensely to GDP growth as it ensures food security as well as it being the major creator of job opportunities especially for the youth (Odalo&Achoki 2016). Agriculture has remained the engine of Kenya’s economic growth, the sector alone making contributions of up to 30% of real GDP and up to 25% with linkage to other economic sectors (Njagi, 2013). However, the performance of agricultural firms in Kenya has erratically fluctuated widely, culminating in a declining trend (Odalo&Achoki 2016). According to Kioko and Maroa (2016) many firms in the sector have experienced hard times in the past decades hence contributing to the witnessed mass migration of people especially youth to the urban centers in search of greener pastures hence leaving it at even more deplorable state.
Various scholars have studied the correlation linking dividend policies and the performance of firm and have produced different results on the relevance of dividend payment. A study by Khan et al (2016) examined whether the dividend policy makes an influence on the firm performance in Pakistan. The study found a significant negative relation between the two variables. Oppong (2015) analysed the effects of dividend policy on banks performance in Ghana and found a direct correlation linking ROE and the dividend policy of commercial banks. Ali, Jan and Atta (2015) investigated the impact of dividend policy on firm performance where the results revealed an existence of positive association linking the two variables.

A study by Shisia et al (2014) in Kenya analyzed effect of dividend policy on firm profitability. Their study concluded an occurrence of a significant association linking dividend payout ratio to profitability of listed firms but the study covered all the listed firms. Maroa and Kioko (2016) analyzed factors influencing profitability among Agricultural Firms listed on NSE where the study concluded that liquidity, firm size and tangibility are the major determinants of profitability but the study excluded dividend policy as a determinant. Despite providing varied results on correlation linking dividend policies to profitability, the context of most studies in Kenya covers all the listed firms despite the fact only seven agricultural firms are quoted. The findings on all firms listed at NSE cannot be generalized to the listed agricultural since the various segments adopt different payout policies. This lead to the question: - what is the effect of dividend policies on financial performance of agricultural firms quoted at the Nairobi Securities Exchange?
1.3 Research Objective

To establish the effect of dividend policy on financial performance of agricultural firms listed at the Nairobi Securities Exchange.

1.4 Value of the Study

Results from this research will benefit the management of agricultural firms quoted at the NSE who as they will improve on their dividend policies on the market prices of their company’s shares which will in turn affect the financial performance. Corporate managers need to gain informational which will reduce the conflict and dissatisfaction from some of the stakeholders especially the shareholders. The same information will be useful for companies which are considering going public. The study will also help potential investors to make informed investment decision as they would invest in companies that practice dividend policies that maximize their wealth.

The government would benefit through improved taxation, economic planning and development among other policies. It will also enable the lenders of various agricultural firms to know if the companies have the capability to service their borrowings in the future based on the expected financial performance. Creditors will be lenient to firms with good future prospects and strict with firms that do not have certainty about their expected future financial performance. The study will also enable the lenders to monitor and derive the signals given by the firms based on the dividend policies announced.

The finding of the study will also help the financial advisors on various financial trends in the industry. The study will be useful to scholars and other researchers who are interested in studying the topic.
CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

Literature review focuses on theoretical review, determinants of agricultural firms’ financial performance and also prior studies on dividend policy and firm performance. The chapter further shows the conceptual framework and a summary of the literature.

2.2 Theoretical Review

The MM theory, Bird in hand theory, information signaling theory, and Agency theory will be used as the underlying theories for the study.

2.2.1 Modigliani-Miller Irrelevance Theory

The MM (1961) irrelevance theory asserts that given the firm’s investment options, the amount allocated to each share has no effect on the wealth. The statement above implies that payout policy doesn’t have any effect on the dividends earned by the shareholders. The theory provides insight on various factors which influence the valuation of firm’s dividend policy (Malik &Maqsood, 2015). The theory further argues that the valuation of any firm is dependent on the revenues generated and not the dividends allocated to shareholders. The model is found on the assumption that the market it operates in is characterized by perfect information (Ali, Jan & Atta, 2015).

The model further reveals profitability is the only factor that can be used in establishing firm valuation. MM theory presupposes when perfect market conditions prevail, the valuation of a firm is only dependent on its turn over as opposed to the dividends. MM
argues if the dividends are set so high, the firm has to compensate that effect by issuing new shares (Malik & Maqsood, 2015). The MM theory also indicates that shareholders are split on the issue of taking dividends or using them to purchase more shares in the firm (Oppong, 2015). For this study, the theory indicates the firm is set up on the principal that the firm valuation depends on the revenues generated rather than retained profits.

### 2.2.2 Bird in Hand Theory

This theory is associated with Litner (1962) and Gordon (1963). The theory asserts that the correlation linking firm’s valuation to dividends is determined by an individual investor preference of dividends rather than the capital gains (Priya & Nimalathasan, 2013). The model suggested that many investors consider the benefits they will yield in short term as opposed to the future promises of higher returns which they may not realize. Shares with high yield give the investors the hopes for better days ahead hence many will be induced to purchase the share which in turn leads to increased share price (Ali, Jan & Atta, 2015). The logic of the theory is short term benefits are more preferred to future prospects (Oppong, 2015).

The main assumption of the model is that the main reason for investor is gaining dividends rather than the capital gain (Shisia et al., 2014). The implication firms make by paying dividends promptly indicates the firm is generating positive returns. As dividends indicate positive revenues, the investors prefer earning high dividends rather than future prospects of high returns. The theory further reveals that dividends are safer than capital gains as they are more certain. This hence, reveals investors are more interested to firm’s dividends rather than the capital gains (Mayech, 2012). However, MM theory critique the model by
claiming firm valuation is determined by its ability to generate revenues rather than dividends (Malik & Maqsood, 2015). In this study, the theory supports that dividends are preferred to capital gains and the dividend policy is relevant.

2.2.3 Signaling theory

This theory was proposed by Ross, (1977) and asserts that the firms’ dividend policies are major indicators future performance of a firm to the investors. The dividends are the only way investors can use to gauge the firms future performance as they are not part of the management hence don’t have the insider information which the management possess (Oppong, 2015). It’s revealed that the theory delivers information for stakeholders about the company’s performance (Khan et al., 2016). Thus, investors view a high dividend as a signal that the firm expects high financial performance in coming years while reduced dividends are an indicator that the firm will experience decreased financial performance (Malik & Maqsood, 2015).

The theory assumes dividends act as signaling device which the investors use to predict the firms future revenues. Cash dividends are not only the interests to investors but the dividend policy change as well (Priya & Nimalathasan, 2013). The signaling theory suggests that, if companies declare their dividends they give the investor a chance to predict the prospective revenues (Malik & Maqsood, 2015). This study supports that an increase in dividends is a signal of high firm returns in the future while decrease in dividends is an indication of low returns.
2.2.4 Agency Theory

This theory is associated with Jensen and Meckling (1976). It posits this is the conflict between the principal who are the owners of the firm and in this case the shareholders and the agent who are given the responsibility of running the firm on behalf of the owners (Shisia et al., 2014). This implies that the conflict arises as the agents may act in a manner to maximize their own interests instead of those of the principal (Okibo & Chateya, 2013). According to the theory, the firm management may adopt policies which maximize their own interests instead of those focusing on maximizing shareholders' wealth (Oppong, 2015).

The theory suggests low dividend payment reduces the frequency with which the firm goes back to the financial markets to raise funds as retained earnings are used for investment and expansion instead. In order for the firms to reduce the agency costs, they ensure adherence to the corporate regulations by ensuring good corporate performance (Yegon, Cheruiyot & Sang, 2014). Dividend payouts ensure no cash lying around which the management can use for personal benefits which prompts them to put the interests of the shareholders first (Oppong, 2015). For this study, the agency theory supports owners are more interested to dividends rather than the promise of better future prospects through reinvesting the amount earned through dividends.
2.3 Determinants of Financial Performance of Quoted Agricultural Firms

2.3.1 Dividend Policy

This is a crucial part in firm’s decision making as the management has to come up with the decision which will benefit both the firm and the shareholders (Mayech, 2012). If company profit not distributed as dividends or implanted in retained earnings is greater, it will be able to enlarge the company's capital position. According to the signaling theory, investors see a dividend increase as a good sign that the company has a prospect, and conversely if the dividend payment is decreasing, it is a sign that the company does not have prospects for the future (Suhadak, Rahayu&Moch, 2016).

2.3.2 Financial Leverage

This is one of the main factors influencing dividend payout ratio through as it’s directly correlated to cost of capital. Dividend payment may put the firm into deeper financial difficulties particularly the highly-geared firms (Oppong, 2015). Financial leverage is a term used to refer to the level to which the firm uses borrowed funds to finance their operations particularly investments. The choice between debt and equity suggests somehow a tradeoff between business and financial risk (Maroa&Kioko, 2016). When the firm has high debt ratio it’s an implication that it will incur high expenses on interests as the cost of capital which reduces revenues implying low dividend payment (Oppong, 2015).
2.3.3 Assets Structure

Asset structure is the ratio that describes the proportion of total fixed assets owned by a company with the total assets of the company (tangibility). Asset structure is the ratio or the balance between current assets and fixed assets, which will determine the structure of wealth (Valentin, 2014). Companies that have high fixed assets will have easier access to external financing and may also have a higher level of debts in their capital structure. If the asset ownership is larger, the company relatively has higher debts on the asset that can be used as collateral. Company assets show the decision of fund usage or investment decisions in the past (Suhadak, Rahayu&Moch, 2016).

2.3.4 Size of the Firm

Large firms are associated with high profits due to their economies of scale advantage which means their cost of production is lower compared to small firms (Valentin, 2014). The size also creates barrier to entry as small firms find it difficult to establish themselves in the industry hence high returns among the large firms (Maroa&Kioko, 2016). However, for the concept of economies of scale to hold, there must be good management which ensures maximum utilization of resources who always put the interest of the firm first over their personal interests (Niresh&Thirunavukarasu, 2014).

2.4 Empirical Review

Namachanja (2016) studied the effect of dividend policy on the financial performance of the listed commercial banks in Kenya. The study used secondary data obtained from 10 banks audited financial statement from 2011 to 2015. It employed regression equation in ascertaining association linking the variables. The result indicated that 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.

Thafani and Abdullah (2014) investigated the impact of dividend payout on performance among the Indian firms. Data was collected from annual reports of the sampled firms 2008 – 2012. It employed regression equation in ascertaining association linking the study variables. Study results established there is an existence of a strong association linking the study variables. It further revealed a strong direct correlation linking payout to ROA but it established a strong inverse correlation linking dividend payout and EPS.

Uwuigbe (2013) examined the main factors influencing dividend payout ratio among the Nigerian firms. 55 firms were sampled and collected data from the firms’ audited financial reports from 2007-2012. The factors examined were; firm size, gearing level and board size using the regression analysis model. The study found an existence of direct correlation linking firms’ performance, firm size, gearing level and board size to dividend payout.

Velnampy, Nimalhasan and Kalaiarasi (2014) examined the association linking dividend policy to ROA of firms in India. The study used secondary data for 2008 and 2012. The study used ROA and ROE to measure financial performance and dividend payout to measure dividend policy. The study employed regression equation in ascertaining association linking the study variables. The study findings show dividend policies have no association to firm financial performance.

Njagi (2013) examined association linking capital structure to ROA of agricultural firms at NSE. The study targeted all the seven firms listed under the agricultural sector at the
NSE. Data was collected from annual reports of the sampled firms 2006 – 2011 and the multiple linear regression method to analyze the collected data. The study found varying ROA of agricultural firms quoted at NSE in Short term long-term debt and revenue. The study further show a significant correlation linking capital structure to ROA and concluded that short term, long-term debt influence revenue and financial performance of agricultural firms listed at the NSE.

Mayech (2012) explored the impact of dividend policy on ROE among firms quoted at NSE. 30 firms were sampled and used secondary sources of data. The regression model was adopted to analyze the collected data. The study results revealed an existence of strong correlation linking EPS to ROE. The study also found a direct correlation linking dividend payout and returns on equity. The study concluded an existence of strong association linking dividend payout ratio to ROE.

Enekwe, Nweze and Agu (2015) investigated the effect of dividend payout on performance of pharmaceutical in Nigeria for a period of 12 years from 2003 to 2014. The study sourced data from firm’s financial statements and adopted the least squares techniques and panel estimation to analyze the collected data. The study results revealed direct correlation linking dividend payout ratio to ROCE and return on assets respectively. The study also established that dividend payout ratio had weak impact on ROE of Nigerian pharmaceutical firms.

Wanjiru (2015) investigated the association linking dividends payout ratio to financial performance of companies quoted at NSE. It adopted a descriptive research and collated data from 62 companies quoted at NSE. Data was collected from firm’s financial
statements from 2011 to 2014. The study adopted the regression model and established that dividend payout ratio affects the level of turnover among firms quoted at NSE. It concluded that dividend payout ratio had a positive and significant impact on financial performance among companies listed at NSE for the period of this study.

Odalo and Achoki (2016) examined the impact of liquidity on profitability performance of quoted agricultural companies in NSE. The study extracted secondary data the audited financial statements from 2003 to 2013. The study used the pooled regression method to analyze the collected data. The findings established an existence of a positive and significant correlation linking liquidity and ROA and ROE. The study however found that the there was an insignificant correlation linking earning per share to financial performance of the listed agricultural firms.

Musyoka (2015) investigated the impact of financial performance of firms quoted at the NSE. The covered a period of five years between 2010 and 2014 and sampled 20 firms which make up the NSE 20 share index. The study used the regression model to analyze the collected data. The findings established that dividend policy had strong positive effect on financial performance of firms listed at the NSE. The study also found that the timing of dividend payments and form of dividend payments had a significant positive impact on the value of the firm. The authors concluded that the major factors that affect financial performance of listed firms are; dividend payout ratio, form of dividend payments and timing of dividend payments.

Ndirangu (2014) investigated the impact of dividend policy on prospective financial performance of companies quoted at the NSE using a co-relational research design. The
research sampled 43 firms listed at the NSE and collected data for the period between 2009 and 2013. The regression model was adopted to analyze the collected secondary data. The study revealed a direct correlation linking current dividend payout and future earnings growth.

### 2.5 Conceptual Framework

A conceptual model gives an idea of the association between and influence amongst the variables informing the investigation and helping in achieving the set goals. The independent variables are the dividend payout ratio and the mode of dividend payment. The dependent variable is ROA while the control variables are firm size, leverage and asset utilization. According to the dividend relevance theories like the bird in hand, agency and signaling theories dividend policy affects the firm value hence correlation linking dividend policy and firm performance. Dividend policy will be measure using the dividend payout ratio and the form of dividend payment while financial performance will be measured using the return on asset. Financial leverage, size of the firm and assets structure will be incorporated as control viable. Empirically, several studies have supported that dividend payout and the mode of dividend payment can influence the performance of a firm. The conceptual is indicated by figure 2.1
2.6 Summary of Literature Review

The dividend MM theory was reviewed and the dividend relevance theory as advance by Gordon’s (1963) Bird in hand theory, signaling theory and agency theory. The irrelevance theory by MM contends dividend policy has no effect on its value and that the value of the firm is influenced by its investment decisions. The dividend relevance proponents argue that dividend payout affect the firm value. Additionally, most of the empirical studies provide conflicting results with some indicating that dividend policy significantly affects firm performance while other indicate that dividend policy is irrelevant. This indicates that the dividend puzzle remains however in different countries and industries dividend policies vary widely.
CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The methodology chapter illustrates the design adopted to carry out the research, the targeted population, the technique used to collect and analyze data.

3.2 Research Design

Research design gives a generalized plan and arrangement of the study so devised in the mind of the researcher as to secure convincing solution to research questions. (Zikmund et al., 2011). A descriptive study involves establishing the rate at which something occurs over a given period of time or the connection involving the variables (Cooper and Schindler, 2003). In this study, the researcher adopted a descriptive research approach. Descriptive study was deemed suitable for this study, because the researcher intends to gather detailed facts by means of descriptions and is important in establishing variables and logical conclusions.

3.3 Population

The population entails a collection of measurements, items, or individuals that make up the total of all possible measurements within the context of the study (Zikmund et al., 2011). A total of seven firms which make up the Agricultural segment quoted at NSE formed the population of the study. Data was collected from the seven agricultural firms as indicated in appendix I.
3.4 Data Collection

Secondary was entirely adopted to carry out the study. The secondary data was extracted from the agricultural firm’s annual reports including the statement of financial statement. The extracted data was on dividend payment, mode of dividend payment, financial leverage, assets structure, total assets and net income. The data cover a period of ten years for the period between 2007 and 2016.

3.5 Diagnostic Tests

Several diagnostic tests was undertaken among them multicollinearity, autocorrelation and normality test. Multicollinearity was determined through the variance inflation factors (VIF) and tolerance levels. Autocorrelation was determined using the Durbin Watson statistics while normality was tested using the Shapiro Wilk test.

3.6 Data Analysis

The collected data was entered into an excel work sheet and all the appropriate calculations undertaken to obtain the desired measures. Data analysis tool os SPSS version 2.0 was used for analysis of the descriptive data. Descriptive statistics was applied in carrying out data analysis. Descriptive was used to summarize the data. Correlation was used to measure the nature and strength of correlation between the variables. Regression was used to hypothesize the particular direction of the relationship.

3.6.1 Analytical Model

The regression model was adopted as the analytical model of the study. The regression equation was generated as follows
\[ \text{ROA} = \beta_0 + \beta_1(DPR) + \beta_2(MDP) + \beta_3(FL) + \beta_4(AS) + \beta_5(\gamma S) + \mu \]

Where

ROA = Return of assets determined using the ratio of net income to total assets

DPR = Dividend payout ratio determined using the ratio of total dividends to earnings

MDP = Mode of dividend payment determined using the proportion of cash dividends to total dividends

FL = Financial leverage determined using the debt to equity ratio

AS = Assets structure determined using the ratio of fixed assets to total assets

FS = Size of the firm determined using the natural log of assets

\(\beta_0\) = Constant of the regression equation

\(\beta_1, \beta_2, \beta_3, \beta_4, \beta_5\) = Beta coefficients of the regression equation

\(\mu\) = Tolerable error

### 3.6.2 Test of Significance

The F and t test statistics was used to test the significance of the whole equation and the individual significance of the study variables. The significance test was carried out at 95% confidence level.
CHAPTER FOUR: DATA ANALYSIS, RESULTS AND INTERPRETATION

4.1 Introduction

This section contains the response rate, descriptive statistics, correlation and regression analysis results and the interpretation of the research findings.

4.2 Response Rate

The research targeted the seven firms listed under the agriculture sector at the NSE. Complete data was obtained from the seven firms for a period of 10 years from 2007 to 2016 making up a response rate of 100%

4.3 Descriptive Statistics

Table 4.1 Descriptive Statistics

<table>
<thead>
<tr>
<th></th>
<th>ROA</th>
<th>DPR</th>
<th>MDP</th>
<th>FL</th>
<th>AS</th>
<th>FS</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>70</td>
<td>70</td>
<td>70</td>
<td>70</td>
<td>70</td>
<td>70</td>
</tr>
<tr>
<td>Mean</td>
<td>.08586</td>
<td>.21571</td>
<td>.75843</td>
<td>.02057</td>
<td>.67971</td>
<td>14.37057</td>
</tr>
<tr>
<td>Std. Deviation</td>
<td>.100873</td>
<td>1.013118</td>
<td>.409721</td>
<td>.038968</td>
<td>.197484</td>
<td>1.385124</td>
</tr>
<tr>
<td>Skewness</td>
<td>.742</td>
<td>1.648</td>
<td>-1.274</td>
<td>1.591</td>
<td>-.808</td>
<td>-.587</td>
</tr>
<tr>
<td>Kurtosis</td>
<td>.830</td>
<td>1.094</td>
<td>-.254</td>
<td>.340</td>
<td>.762</td>
<td>-.336</td>
</tr>
<tr>
<td>Minimum</td>
<td>-.120</td>
<td>-3.630</td>
<td>.000</td>
<td>.000</td>
<td>.060</td>
<td>10.960</td>
</tr>
<tr>
<td>Maximum</td>
<td>.370</td>
<td>6.940</td>
<td>1.000</td>
<td>.170</td>
<td>.950</td>
<td>16.640</td>
</tr>
</tbody>
</table>
Source: Research Findings

The table above reveals that the average ROA for the agricultural firms was 0.08586 while the minimum ROA was -0.0120 with the maximum being 0.370. It further reveals that the dividend payout ratio had a mean of 0.2157 and maximum and minimum values of -3.630 and 6.940 correspondingly. The average value of the mode of dividend payment was 0.758 and minimum and maximum values of 0.000 and 1.00 respectively. The average values for financial leverage, asset structure and firms size in terms of natural log were 0.02057, 0.6797 and 14.37 respectively. The kurtosis and skewness values were between -2 and +2 meaning that the data values had a normal distribution.

4.4 Correlation Analysis

Table 4.2 Correlation Matrix

<table>
<thead>
<tr>
<th></th>
<th>ROA</th>
<th>DPR</th>
<th>MDP</th>
<th>FL</th>
<th>AS</th>
<th>FS</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DPR</td>
<td>-.467**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MDP</td>
<td>-.073</td>
<td>.133</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FL</td>
<td>-.057</td>
<td>.057</td>
<td>.059</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AS</td>
<td>.209</td>
<td>.037</td>
<td>.003</td>
<td>-.106</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>FS</td>
<td>-.129</td>
<td>.131</td>
<td>.256*</td>
<td>-.047</td>
<td>.390**</td>
<td>1</td>
</tr>
</tbody>
</table>

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

*. Correlation is significant at the 0.05 level (2tailed).

Source: Research Findings
Table 4.2 results indicate an inverse association linking dividend payout ratio, mode of dividend payment, financial leverage, asset structure, firm size and the ROA of quoted agricultural firms. The tables also show that the correlation between assets structure and return on assets is positive and all the correlation coefficients are less than 0.7 which is an indication that the variables are not closely hence no multicollinearity.

4.5 Regression Analysis

4.5.1 Model Summary

Table 4.3 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>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.548&lt;sup&gt;a&lt;/sup&gt;</td>
<td>.300</td>
<td>.245</td>
<td>1.235529</td>
<td>1.866</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), FS, FL, DPR, MDP, AS

b. Dependent Variable: ROA

Source: Research Findings

The model summary results indicate that 30% of the variation in the dependent variable as revealed by (R square) statistics, which is 0.300. The tables also indicate that the overall correlation value is 0.548, which indicates existence of a strong correlation between the dependent and independent variables. The Durbin Watson statistic is between the recommended value of 1.5 and 2.5, hence no multicollinearity.
4.5.2 Analysis of Variance

Table 4.4 Analysis of Variance

<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>Regression</td>
<td>41.858</td>
<td>5</td>
<td>8.372</td>
<td>5.484</td>
<td>.000b</td>
</tr>
<tr>
<td>Residual</td>
<td>97.698</td>
<td>64</td>
<td>1.527</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>139.556</td>
<td>69</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: ROA
b. Predictors: (Constant), FS, FL, DPR, MDP, AS

Source: Research Findings

The table above reveals regression model significant and fit to explain the relationship between the considered research variables. This is indicated by the F value of 5.484 and the p value of 0.000, less than significance value of 0.05.
4.5.3 Regression Coefficients

Table 4.5 Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
<td>Tolerance</td>
</tr>
<tr>
<td>(Constant)</td>
<td>3.624</td>
<td>1.576</td>
<td>-</td>
<td>.381</td>
<td>.705</td>
</tr>
<tr>
<td>DPR</td>
<td>2.641</td>
<td>.149</td>
<td>-.457</td>
<td>-4.299</td>
<td>.000</td>
</tr>
<tr>
<td>MDP</td>
<td>.131</td>
<td>.380</td>
<td>.038</td>
<td>.344</td>
<td>.732</td>
</tr>
<tr>
<td>FL</td>
<td>-.396</td>
<td>3.853</td>
<td>-.011</td>
<td>-.103</td>
<td>.918</td>
</tr>
<tr>
<td>AS</td>
<td>2.173</td>
<td>.826</td>
<td>.302</td>
<td>2.632</td>
<td>.011</td>
</tr>
<tr>
<td>FS</td>
<td>-.203</td>
<td>.122</td>
<td>-.197</td>
<td>-1.662</td>
<td>.101</td>
</tr>
</tbody>
</table>

a. Dependent Variable: ROA

Source: Research Findings

From figure 4.5.3 the following regression equation was generated

\[
\text{ROA} = 3.624 + 2.641x1 + 0.131x2 - 0.396x3 + 2.173x4 - 0.203x5 + \mu
\]

The coefficients results on table 4.5 indicate significant positive correlation linking (DPR) and financial performance of listed agricultural firms in Kenya. The tables further indicate that there in an insignificant positive correlation linking (MDP) and the agricultural firms’ financial performance. Further, the findings indicate that there is an insignificant inverse correlation linking financial leverage (FL), firm size (FS) and the financial performance of the listed agricultural firms. Finally, the table indicates that there is a strong direct correlation linking asset structure (AS) and financial performance the quoted agricultural
firms at the NSE. The table also indicates that there is no multicollinearity among the variables since all the VIF and tolerance values are less that 10 and more than 0.2 respectively.

4.6 Interpretation of the Findings

The result found that agricultural firms financial performance is positively and significantly influence by the firms dividend payout ratio. This finding indicates that dividend payout significantly affects the performance of agricultural firms listed at the NSE. This finding supports the dividend policy proposition advanced by various authors. Thafani and Abdullah (2014) found an existence of strong correlation linking dividend payout to ROA. Velnampy, Nimalthasan and Kalaivarasi (2014) however revealed that dividend policy had no association to profitability.

The results of the research establish that mode of dividend payment has a positive but insignificant relationship with the listed agricultural firms’ financial performance. This finding indicates that the mode of dividend payment does not affect the performance of listed agricultural firms in financial terms. The study also revealed that financial leverage and firm size have inverse but weak correlation to firms listed agricultural firms’ financial performance. This finding indicates that the financial leverage and firm size does not affect the performance of listed agricultural firms in financial terms. Njagi (2013) however concluded that short term, long-term debt influence revenue and financial performance of agricultural firms listed at the NSE. Uwuigbe, Jafaru and Ajayi (2012) however found firm’s size has a significant impact of the financial performance of firms.
Finally, the research established that listed agricultural firms financial performance is positively and significantly influenced by the firm’s assets structure. This finding indicates that the firms asset structure significantly affect the performance of agricultural firms in financial terms. This finding concurs with that of Maroa and Kioko (2016) who concluded that asset tangibility is one the major determinants of agricultural firms’ profitability.
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This section presents the summary of the research, the conclusion based on the findings and makes several recommendations. The section also gives the study limitations and suggests areas which require further studies.

5.2 Summary

The study intended to establish the effect of dividend policy on financial performance of agricultural firms quoted at the Nairobi Securities Exchange. The study considered the dividend payout ratio and the mode of dividend payout as the independent variables while financial leverage, assets structure and firms size was included as control variables. The research adopted a descriptive research design and targeted the seven firms listed under the agricultural sector the NSE. The study collected secondary data for period of 10 years and complete data was obtained from the seven firms for a period of 10 years from 2007 to 2016 making up a response rate of 100%.

A summary of the descriptive results indicates that the average ROA for the agricultural firms was 0.08586 while the dividend payout ratio had a mean of 0.2157 and the average value of the mode of dividend payment was 0.758 respectively. The study found that the average values for financial leverage, asset structure and firms size in terms of natural log were 0.02057, 0.6797 and 14.37 respectively. Correlation results established there was an
direct relationship linking dividend payout ratio and mode of dividend payment, inverse correlation between financial leverage, firm size and the return on assets of listed agricultural firms but the correlation between assets structure and return on assets was positive.

The model summary results established that the independent variables account for 30% of the variation in the dependent variable and that the overall correlation value is 0.548, which is means that there is a strong correlation between the dependent and independent variables. The regression model was also significant as the F value was 5.484 and the p value of 0.000, which was less than the significance value of 0.05.

The coefficients results revealed a positive and significant relationship between dividend payout ratio and financial performance. Further, the study found an insignificant positive relationship between the mode of dividend payment and the agricultural firms’ financial performance. Additionally, a weak inverse correlation linking financial leverage, firm size and the financial performance of the listed agricultural firms was revealed. Finally, a strong direct correlation was established between asset structure and financial performance the quoted agricultural firms at the NSE.

5.3 Conclusions

The findings of the research established that agricultural firms’ financial performance was directly and significantly influenced by the firms’ dividend payout ratio. Based on this finding the study concludes that dividend payout significantly affects the performance of agricultural firms listed at the NSE. The findings also revealed that listed agricultural firms financial performance was positively and significantly influenced by the firm’s assets
structure. As per this finding, the study concludes that a firm’s asset structure significantly affects the performance of listed agricultural firms in Kenya.

The findings of the study revealed that mode of dividend payment had a positive but insignificant relationship with the listed agricultural firms’ financial performance. Based on this finding the study concludes that the mode of dividend payment does not affect the performance of listed agricultural firms in financial terms. In addition, the study revealed that financial leverage and firm size had a negative but insignificant relation on the listed agricultural firms’ financial performance. As per this observation, the study concludes that financial leverage and firm size do not affect the performance of listed agricultural firms in financial terms.

5.4 Recommendations

This study concluded that dividend payout significantly affects the performance of agricultural firms listed at the NSE. The study recommends that the agricultural firms’ managements should ensure that they come up with an optimal dividend policy since the payment of dividend may affect their financial performance.

The research also concluded that a firm’s asset structure significantly and directly affects the performance of listed agricultural firms in Kenya. The study recommends that the management of agricultural firms should invest more resources towards fixed assets since an increase in assets increases the firm performance.

This study concluded that the mode of dividend payment does not affect the performance of listed agricultural firms in financial terms. The research therefore recommends that the
management of agricultural firms should not worry about the method of dividend payment since the mode does not affect the firm’s financial performance.

Finally, the research also concluded that financial leverage and firm size do not affect the performance of listed agricultural firms in financial terms. The study however recommends that the management of agricultural firms should hold optimal levels of debt since debt may affect other core areas of an organization.

5.5 Limitations of the Study

This study focused on agricultural firms listed the Nairobi securities exchange thus the findings may only be applied only to the sampled firms. The study also focused on the mode of dividend payment and the payout ratio but there are other measures of dividend policies which may produce different results such as the dividend per share, the timing of dividend payment among others.

5.6 Suggestion for Further Research

This study found that the considered variables explain on 30% of the variation in the dependent variable financial performance. This is a clear indication that financial performance of listed agricultural firms is influence by several other factors, which are either financial or non-financial. The study therefore recommends an additional research on the other qualitative and no qualitative factors that affect agricultural firms’ financial performance.
REFERENCES


Shisia, A., Sang, W., Sirma, K., & Maundu, C. N. (2014). Assessment of dividend policy on financial performance of telecommunication companies quoted at the Nairobi


APPENDICES

Appendix I: List of agricultural Firms at NSE as at 31/12/2016

1. Kakuzi Ltd
2. Rea Vipingo plantations Ltd
3. Sasini Ltd
4. Kapchorua Tea Ltd
5. Limuru Tea Ltd
6. Willliamson Tea
7. Eaagads Ltd

Source: Nairobi Securities Exchange