EFFECT OF DIVIDEND PAYOUT ON THE FINANCIAL PERFORMANCE OF THE FIRMS LISTED ON NAIROBI SECURITIES EXCHANGE

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DECLARATION

This research project is my original work and has not been submitted for examination in any other university.

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DEDICATION

I dedicate this work to my family and friends for the sacrifice they made for me to complete this project.

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I would like to say thank you to Allah, for giving me the strength, wisdom and health to do this project to completion.

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LIST OF ABBREVIATIONS AND ACRONYMS

NSE   Nairobi Securities Exchange

ROA   Return on Assets

ROE   Return on Equity

SACCOs   Savings and Credit Cooperative Organisation

ABSTRACT

Corporate dividend payout policy has been a concern in finance over an extended period. Scholars argue that share strategies are all alike and that there is no specific strategy that can raise investors capital in ideal principal markets. For this reason, dividend policy is among the most discussed topics in business investment and among many academics. Despite the fact that companies continue to pay dividends, it remains unclear on its effect on financial performance. This study therefore sought to establish the effect of dividend payout on the financial performance of the firms listed at Nairobi Securities Exchange. Specifically the study focused on the amount of dividends paid, Earnings per share and the control effect of leverage and retained earnings. The theories adopted by the study include Dividend Relevance Theories, Dividend irrelevance theory and Information signaling effect theory and Bird-in-the-Hand Theory. The study adopted an explanatory study design. The population of the research was the 66 listed firms at the NSE by the year ending December 2016. A census was conducted on all the 66 listed firms. Correlation and regression analysis was conducted on secondary data collected for five years. The results revealed that the amount of dividends paid by firms listed at NSE have a positive and significant effect on the financial performance of the firms, Earnings per Share of the firms listed at NSE have a negative but not significant effect on the financial performance of the firms, retained earnings has a positive and significant effect on ROA of the firms listed on Nairobi Securities Exchange and the effect of using leverage ratio was negative but not significant. The study recommends that since the amount of dividends paid affect financial performance of firms listed at Nairobi securities exchange positively, the study recommends that the firms listed at NSE can consider revising their dividend payout policy so as to allow for payment of more dividends especially when there is a need to attract more investors with an aim of improving the financial performance in terms of return on assets. The study also recommends that since retained earnings positively affects financial performance of firms listed at NSE; the study also recommends that firms listed at NSE can consider revising their investment decisions and policy to use more of retained earnings in financing decisions than other modes of financing such as the use of debts and shareholders' equity.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Analyzing dividend payout decisions is an important apparatus of business policy. The dividend strategy of a firmevaluates the separation of income between expenditure to investors and re-inventures in the company.The work of an investment manager's is to assign the income to shares or held income. Reserved income is one of the most valuable sources of finance for funding the growth of businesses. The latter makes it ultimately likely to obtain higher shares.Companies have a challenge of allocating shares to stockholders and reserving their income with a purpose of re-investing it back into the industry to improve more growth. Any firms 'decision with regard to the amount of income they could compensate out as a dividend and the quantity they could hold is the worry in dividend payout assessment (Travlos, Trigeorgis & Vafeas, 2015).

The pattern of payment of dividend influences with other things firms' stock value and character in addition to monetary performance (Malik, Gul and Rehma, 2013). Compensating out extra dividends of money is more likely to improve the the cost of the stock.Alternatively, raising dividends of cash implies that a small amount of money will be accessible for reinvestment. However, reinvesting back smaller income into the venture will decrease the predictable growth ratio and perpetually lower the cost of the stock. The company must, however, be very cautious in resolving the issuance of income to these two objectives.

Share payout stipulates the proportion of income that firms give out in hard currency to the investors. A business distributing a high proportion of its earnings as a dividend may reduce the sum of income held in a company thus impacting on the total sum of funding. It can do this while pleasing the investors who have a preference for cash dividends. Conversely, a company may adopt a low dividend payout policy, which though providing retained earnings finance, may send the wrong signal to the investors. The investors then interpret a low dividend payout as a sign of little management confidence in the company's future prospects (Pandey, 2012). In essence, the dividends payout decision has a direct effect on the firms' financing options and the investors' perceptions of the company's prospects. The firm should give all critical factors consideration before setting a dividend payout. A company has to establish a balance between its interests and that of investors (Kuria, 2012).

Cash dividends in China are taxable instantly to dividend owners as earnings, while dividends of stock are untaxed. In a case where cash dividend payouts are lacking, investors must put on the market dividends to take out their ratable segment of accrued company affluence in the shape of investment benefits; besides, there is no assets benefits tax in China. For that reason, reserve dividends may present a suitable tool for controlling capital benefits extraction for private investors, (Wang, Manry &Wandler, 2012). In Nigeria, majority of the firms listed in the Nigerian Stock Exchange have evidently distinguished share strategies that are dependent on the common dividend activity in the financial market (Adediran & Alade, 2013).

According to Ndeto (2014) modeling business dividend policy is contentious and entails decisions by policy makers. Moreover, there have been rising consent that there is no

solitary reason for payments of shares and there are numerous explanations regarding the fact that firms compensate or do not compensate dividends, (Mbuki, 2014). Therefore, this study is hence timely in seeking to assess the impact of dividend payout on the monetary performance of the companies listed on Nairobi Securities Exchange.

1.1.1 Dividend Payout

Dividends are returns on investments by shareholders of any corporate entity like Saccos, Banks, Insurance firms and many others. Dividends can be compensated in form of cash or by acquiring more shares instead of receiving the cash. Kariuki (2013) noted that firms can pay out dividends in fixed amount of shares held. Stock dividends enhances the mount of shares owned by the stakeholders and regular dividends are paid in periods (quarterly, semi-annually or annually whereas special dividends are paid as well as the regular dividends (Lintner 1956). Firms may decide to pay out dividends or not depending on various factors among them, the investment at hand, the liquidity position, profitability, expectations of stakeholders, and age of corporation among many others according to Ongeri (2014). Stakeholders know with certainty that firms which pay dividends have a higher firm value as opposed to the ones that do not pay dividends. Dividend payout depends on the dividend policies embraced by different firms, (Kapoor, 2009). Dividend policy also enables firms to know how much to be concentrated to the stakeholders or held by the firm for other investment purposes of the firm according to (Velnampy, Nimalthasan & Kalaiarasi, 2014) among other factors that determine dividend payment. Also as per their research, every investor takes up the risk of undertaking any investment because of the anticipated future returns to be obtained inform of dividends hence the emphasis on the value of the company dividend policy to the stakeholders. There are various determinants

of dividend payout such as asset growth rates, desire of shareholders, profitability, nature of industry, Risk, growth, magnitude of earnings, liquidity and the size of the firm,(Zameer, Rasool, Igbal, Arshad, 2013). In US, firms pay dividends quarterly whereas special dividends are paid at irregular intervals in accordance to the study done, (Linter1956).

According to Fumey and Doku (2013), high payout of shares in a time can reduce the funds accessible for venture in consequent times and that would cause the likelihood of increasing profits or liability in the subsequent time to fund ventures. Alternatively, high investment expenditure can lead to a decrease in the accessible finances to fund payout of dividends and enhance demand for external debt funding through the subsequently period to fund payment of dividends. A decrease in dividends compensated is viewed at badly by shareholders and the cost of stock generally decreases in value as shareholders look for more share paying stocks.

1.1.2 Financial Performance

Amidu & Abor (2006) summarized significant variables measuring firm's financial performance as cash flow, growth of sales and profitability. Brealy, Myers & Marcus (2007) defines profit as sales minus expenditure that are associated with the sales. Ross, Westerfield and Jaffe (1999) define the flow of money as money created by the company and compensated to financiers and investors. It can be grades as from operations, cash flow from investments and financing activities. Sale growth is a measure of increase in sales volume over a period time.

Brealy, Myers and Marcus (2007) argue that the accounting worth for the company's profits is equivalent to the cumulative sum that the company has generated from its investors or held and reinvested on their behalf. If the firm has been doing well in raising it value, the market worth of capital will be greater than its book worth. The disparity involving the selling price of the firm's profit and its accounts worth is termed as market worth added.

1.1.3 Effect of Dividend Payout on Financial Performance

The dividend policy of any company determines the size of the company and its level of growth which are non-financial indicators as per researches done by Uwuigbe, Jafaru and Ajayi (2012) on share strategy and company performance in Nigeria. Firms decisions to payout dividends impacts on other operations of the firm either positively or negatively. Research has been conducted to determine whether firm's share strategy has an effect on the prospective performance of the firm either financially or otherwise, (Abrahamsen & Balchen, 2010).

Amidu and Abor (2006) posit that a positive association is anticipated to be between cash flow, profitability and payout of shares. Alternatively, the growth of sales, market to book worth and the payout of dividend have a possibility of having a negative association. This is justified by the idea extremely beneficial companies have a propensity of stating higher dividend payouts. Hence they would have demonstrated greater payout proportions. The profitability of a company can be deemed to be a vital aspect in determining the expense of shares. Moreover, profitability or the flow of money situation is a significant determinant

of the share compensation proportion. A high-quality profitability point improves the company's capability to compensate shares. Usually firms with efficient and steady flow of money compensates for dividends without any challenge in relation to companies with unpredictable cash flow position.

Amidu and Abor (2006) argue that a rise in sales and market to account value implies that company's potential forecasts and venture opportunities. Rising companies need more finances so as to fund their development and thus would characteristically hold higher ration of their earnings by compensating little dividend. In addition, companies with bigger market-to-book worth are likely to have superior venture chances and therefore would hold additional resources and record inferior dividend payout ratios.

1.1.4 Firms Listed at the Nairobi Securities Exchange

Nairobi Securities Exchange was set up in 1954 as a result of the government's economic transformation drive expected at increasing the monetary and resource market so as to anchor and improve private segment enterprise. Nairobi Securities Exchange encompasses both markets for equity and debt financing. It has enabled the creation of comparatively cheaper extended period capital and in so doing augmented the monetary segment product presenting short-term resources universal place in the capital market.

Over the past decade, the bond trading has experienced several changes like automation of its exchange in September 2006 and in 2007 thereby allowing stockbrokers to buy and sell distantly from their offices. The purpose of NSE is to provide support to trading, clearance of payment where equities, derivatives, debts and other related materials. It has the

authority to list firms on the securities exchange and allow shareholders to buy and sell bonds of firms and therefore it is tasked with the performance of securities exchange. It's regulated by Capital Market Authority (Musiega *et al*, 2013).

The market for trading securities is well controlled to allow buying and selling of business as well as other securities. Bonds are bought and sold out according to specific rules and policies. These kinds of markets enable provision of better levels of bookkeeping, management of capital as well as simplicity in the management of the company. This is due to the fact that monetary markets support the severance of holders of capital in part while at the same time severance of managers on the other hand. Trading in securities enhances the access to funds from various types of users by giving the elasticity for adjustment. Moreover, it enables shareholders with an effective instrument to fund their ventures in securities.

1.2 Research Problem

Corporate dividend payout policy has been a concern in finance over an extended period. Additionally, regardless of the wide research on the subject, it remains as a broad topic (Brealey, 2012). Miller and Modgliani stipulates that share strategies are all alike and that there is no specific strategy that can raise investors capital in ideal principal markets. For this reason, dividend policy is among the most discussed topics in business investment and among many academics. Studies in the past tried to look for the absent parts in the share problem for approximately half-century, (Al-Malkawi, Rafferty & Pillai, 2013. According to Mirza and Azfa (2013), forty years have been spent researching dividend policy, and thus far, it has not been resolved. This is evident in a study by Yegon, Cheruiyot and Sang (2014) who suggested that companies should make certain that they have a better and

strong share strategy in position to improve excellent financial performance and attract investors contrary to Agyei and Marfo-Yiadom's (2013) who indicated that share strategy does not impact on the financial performance of a company.

For the last decade, the monetary performance of firms listed at NSE has been mixed (Muchiri, Muturi & Ngumi, 2016). More than 10 companies have been delisted from the Nairobi Securities exchange for the last one decade. Firms like Hutchings Biemer, Pan Paper Mills, and Uchumi Supermarkets Ltd were put under legislative management. In September 2014, Eveready Ltd cut 100 jobs and closed its dry cell-making plant in Nakuru, in October 2014, chocolate maker Cadbury shut down its mechanized plant in Nairobi, shedding about 300 jobs (NSE, 2016). Shareholders have withdrawn most of their shares from the companies. Despite the fact that companies continue to pay dividends, it remains unclear on its effect on financial performance.

In some scenarios some of the companies that recorded the greatest successes during the preceding years like Apple and Google opted not to pay shares (Elgammal, 2014). A close observation of largest quoted companies in united Kingdom show that they have a trend of not paying dividends (Smith, 2012). Many presumptions have been suggested to clarify the significance of share payout and if it influences financial performance, but no common conformity has been reached (Masara, 2015).

Global studies such as Velnampy, Nimalthasan & Kalaiarasi (2014) focused on share strategy and the cost effectiveness of manufacturing firms listed on Colombo Stock Exchange in Sri Lanka, Xu (2013) focused on firms listed at Shanghai Stock Exchange while Parsian, Koloukhi and Abdolnejad (2013) sought to assess the utilization of the share payout ratio as a determinant for a company's prospective profits development on listed

companies in Iran stock exchange and Hanif (2013) focused on the association between dividends, earning and investment for firms listed on the Karachi Stock Exchange (KSE). The studies presented a contextual knowledge gap which this study sought to fill since the conditions of the economies under which these studies were conducted are different from the Kenyan and hence their findings cannot apply to the Kenyan context.

Locally, Marekia (2015) carried out a similar research on dividend policy and the value of the firm for companies listed on NSE and established a significant connection linking share payout proportion and the value of the company. Gitau (2012) studied the association between share compensation and share price for firms listed at the NSE and established a weak positive association linking share payout proportion and market dividend costs. However, these studies focused on shareholders wealth and not financial performance. This study therefore sought to answer the question; what is the impact of dividend payout on the financial performance of the firms listed on Nairobi Securities Exchange?

1.3 Research Objective

To assess the effect of dividend payout on the financial performance of the firms listed at Nairobi Securities Exchange

1.4 Value of the Study

Scholars with an interest in the subject of dividends can use the results of this study as a foundation for doing more studies on this topic. The study has added literature of dividend payout of developing markets. The study findings are expected to guide management of companies in the formulation of dividend payout policy.

The study has presented the connection involving dividend policy and financial performance and this can help the finance managers of these firms in deciding if companies

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should be keeping held income for debt settlement, prospective projects and dividend payments. The findings provide the managers of listed firms with an alternative regarding payments of dividends. The study establishes that the amount of dividends paid helps to foster the growth of the returns on assets, probably through sending the right information that the firm is performing well. This can guide the decisions of whether to pay or not pay dividends.

These study findings are also expected to guide investors who can incorporate dividend policy in their choice of companies to invest. They would also be able to link dividend policies to performance and hence make informed decision on when and where to invest their funds. Since the study has established that the amount of dividends paid is positively linked to financial performance of firms listed at NSE, the investors can make use of this finding to inform their investment decision by linking performance to the dividends which a firm pays.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This part contains the reviewed studies and the theories that guide the study, the previous empirical studies carried out relevant to the study. Finally the study presented the summary of the major ideas for the study.

2.2 Theoretical Review

The research was founded on the theories to aid in determining the impact of share payout on the cost effectiveness of firms listed at the NSE. The theories adopted by the study include Dividend Relevance Theories, Dividend irrelevance theory and Information signaling effect theory and Bird-in-the-Hand Theory.

2.2.1 Dividend Relevance Theories

This notion puts into consideration the dividend to be a dynamic variable influencing the worth of the company (Lintner, 1956; Gordon, 1959; Walter, 1963). The theory unwinds the hypothesis of ideal money markets and cogent shareholders. It examines practically the performance trends of share allocations and their influence on company worth. Market hostilities are not costless and shareholders often do not act reasonably in a practical world (Lease, John, Kalay, Loewenstein & Sarig, 2000).

According to Gordon (1959) dividend policy influences the company worth. He posits that greater payouts for dividend is imperative for shareholders as dividend present an

assurance about the firms' financial welfare and is also eye-catching for shareholders aiming to make safe the existing earnings. According to Walter (1963) the alternative of dividend strategies approximately for all the time influences the worth of the company due to the plenty of beneficial shareholding chances. Lacks of cash dividend for income are the basis of finances in such case.

The theory is applicable to the research as it provides an understanding on dividend payout. According to the theory, dividends positively affect financial performance of firms. This study will hence seek to test whether the argument is true in the Kenyan context by establishing the influence of dividend payout on financial performance of firms listed on NSE.

2.2.2 Dividend irrelevance theory

The proponent of this theory was Miller and Modigliani in 1961. The theory states that in perfect conditions, the price of the company will not be influenced by the degree of the company's dividends as investor's worth is unresponsive to a declaration of big or small levels of shares.

The theory states that the firms' worth and the monetary effectiveness rely singly on the chances for venture accessible to it and not shares. Moreover, ease of use of finances to venture in valuable tasks. This means that, the firm can raise adequate resources externally and internally to finance equally its investments programs and dividends for a given set of

investment opportunities. The theory support the notion that decisions on ventures should not be influenced by the payout of the dividends.

According to the theory, payments regarding dividends are rendered useless for the investors as to compensate for the dividends; the firm has to allocate new dividends to accumulate the required resources. The price of the inventory will decrease in the same percentage to the share compensations due to the allocation of new stocks. Likewise, depreciation in the value of the stock and the payments for dividend will neutralize oneself (Modigliani and Miller, 1961). Therefore the managers should take more time running the resources of the company. But in a case of the investor, insignificance means that they are unconcerned between getting returns as the benefits of capital or as shares. A rise in the benefit for capital is shown by a decrease in dividend while a decrease in the benefit for capital is shown by a bigger share and the general profit is dissimilar in either case.

The study seeks to examine whether a substantial relationship exists between a financial performance of a company and the decision on dividend payout. It is probable to deduce that dividends may contribute to greater earnings if there is a strong association between the earnings obtained and the payments for shares. Even though Modigliani and Miller argue that shares do not influence the earnings on profits, the study will hence seek to test the applicability of the argument to the Kenyan context. Even though this research disregards the supposition that capital markets are ideal, which is a significant supposition, it will still test the theory on the Kenyan NSE market.

2.2.3 Information signaling effect theory

Stephen Ross advanced this theory in 1977 arguing that dividends are relevant and that dividend strategy can be utilized by the management to signal some information to the market if the business is operating in an efficient market. For example, payment of high dividends by the management could indicate large projected profits in the future to maintain a high dividend level while low dividends would show that the firm expects low profits in the future hence reducing the share price of the company.

Bhattacharya (1979) put forth some of the mainly recognized studies regarding signaling theories which stated that shares might serve as an indicator for anticipated prospective financial statements. A rise in the quantity of shares indicates that the managers look forward to greater financial statements in the coming years. The study though anchors on the supposition that outside shareholders have deficient information concerning the firms' prospective financial statements and the benefits of capital and also tax rates on dividends are bigger than those of investment benefits. According to Bhattacharya (1979), under these circumstances firms could opt to utilize dividends to portray positive indicators to their investors and outside shareholders by compensating for higher dividends. This move would however be irrespective of the fact that there is a tax disadvantage for dividends.

The application of the theory in the real world has necessitated into a pool of research which has resulted in varying ideas with respect to the use of signaling theory. A study by Asquith and Mullins (1983) for example, gave an empirical proof in support of the signaling theory stating that a rise in payments of dividend is inclined to raise the investor's

affluence and that dividends also has information that is not available to other suppliers of information like bookkeeping information. Other studies, for example, Black (1976) and Pettit (1972) posits that the informational function of shares are overstated and that new less expensive ways of indicating the similar information to investors can be utilized.

This study seeks to determine whether the argument by Bhattacharya (1979) that raise payout of dividend can work as a signal of bigger financial statements in years to come thereby enhancing effectiveness, is realistic in the NSE. This research, hence, tries to test the association linking firms' share payout and financial performance of firms listed at Nairobi Securities Exchange. Since there is no unified picture of a connection involving dividends payout and financial performance, this research will try to find out whether this association exists in the Kenyan Nairobi Securities Exchange market.

2.2.4 Bird-in-the-Hand Theory

The proponent of the theory was Gordon in 1963. It argues that shares are significant in establishing on company value. Earnings are well-regarded exceptionally quite the reverse to held revenue when it comes to the notion of susceptibility and incorrect information. Speculators are deemed to be cautious and therefore prejudice to "a bird in hand", in this aspect the dividends of money instead of "two in bush" in this aspect, prospective benefits of capital. The strategy for dividend was driven by the demand from the shareholders receiving yearly returns apart from the benefits from capital, (Lintner, 1956). Delegating the judgment on allocation of income to managers and principals of the firm is an

experiment as monetary experts have varying perceptions on current rises in cash earnings as well as prospective capital.

As a result, speculators would be prejudiced to compensate a bigger price for dividends on which the present earnings are paid. The installments for the present income, (fledgling in the hand) weaken monetary experts' unpredictability and ultimately lead to a bigger approximation of the company. Speculators would for that reason choose earnings to capital add-ons, (Amidu, 2007). This is on the basis that, bigger present bonus weakens susceptibility about prospective cash sources to speculators; a big payout proportion will decrease the price of principal, and eventually raise dividend worth, (Baker, Veit & Powell, 2001).

Bhattacharya (1979) suggested that the speculation idea of a bird in hand theory is deceptive. He therefore recommends that the organizations risks affect the extent of earnings differently. Specifically, firm's earnings risk influences its profits repayments; though growths in income will not decrease the threat of the company. Nevertheless, Murekefu and Ouma (2012) indicated that the performance of the firm is affected mostly by payout of the share as well as actual existing incomes which are favored by the shareholders than the benefits of capital. This theory provides an understanding to the study with regard to determining the influence of share payout on the monetary cost effectiveness of the companies listed on NSE.

2.3 Determinants of financial performance

The determinant of financial performance is simply services or instruments that are provided by financial institutions. The section discussed the determinants of financial products ranging from asset utilization, company size and ownership concentration.

2.3.1 Asset Utilization

Asset utilization is an indicator of which capitals are prepared for delivering and what they actually make, (Ellis (1998). Alternatively, disuse of a resource leads to bad luck in profits specifically on the speculation that can be comparable from the inefficient disuse of gains. This may create the costs of the firm as managers do not work to the highest benefit of the owners, (Fleming, Heaney and McCosker, 2005). According Okwo (2012) argues that company gains are positively correlated with interest in settled resources however the result is not noticeably decisive.

According to Xu (2013) argues that both kinds of company implementation assessment with respect to capital earnings and asset earnings positively and decisively affect the use of resources as well as the operations of the company. An increase in the utilization of a resource should enable companies improve their shares by concentrating on their parts of specialty, by raising their swiftness, by releasing capital to reserve growth and by dropping the prices that decrease costs to be controlled.

2.3.2 Firm Size

According to Abiodun (2013), the indicator of a company presupposes an imperative component in choosing the kind of the association the company prefers within and in its

external working settings. The larger the company, the further notable its effect has on its business associates. Yet again, the growing effects of components and multinational ventures in the current global economy are points out to what segment it acts within the expert place of work.

Majority of the researches conducted on the effect of company size on profits indicated affirmative findings. According to Ozgulbas *et al* (2006), large scale companies have bigger implementation when compared with small scale companies. Jonsson (2007) also argues that large scale companies have superior efficiency when compared with small scale companies. The company size can be determined by taking a logarithm of the combined resources of a firm.

2.3.3 Ownership Concentration

There are conflicted conclusions about the effect of ownership concentration of financial performance of firms. Within agency cost theory, insider proprietorship and institutional possession are contrarily identified with organization overheads as the investors can screen the administration all the more viably, (Alli *et al*, and 1993). Moreover, as per office hypothesis, a higher influence proportion may moderate potential clashes amongst proprietors and administrators concerning the decision and the level of danger of extra ventures (Jensen and Meckling, 1976). That is, the office hypothesis would bolster the theory that an expanding influence proportion triggers lessening "organization expenses of outside value and change of firm execution, all else held equivalent" (Berger and di Patti, 2002). Notwithstanding, under duty based hypothesis, institutional proprietorship is

emphatically identified with profit payout on account of assessment differential and customer base impact (Short et al, 2002) in light of the fact that establishments lean toward profits than capital increases.

Kalezic (2015) infers that high possession focus empowers viable checking by speculators to secure their interests. He promotes that proprietorship focus might be (briefly) utilized as a practical substitute for the still immature corporate administration framework. Castaneda (2006) takes note of that, for the situation when the stock exchange is illiquid, and minority shareholders are not all around secured, and share costs don't mirror the nature of firm execution, extensive proprietors (the ones that bear the most hazard) are debilitated as for surveying resource allotment proficiently, bringing about their decision of generally safe, low-beneficial activities, which prompts to poorer firm execution.

2.4 Empirical Review

Velnampy, Nimalthasan and Kalaiarasi (2014) looked at the connection involving dividend policy and the performance of manufacturing companies listed on Colombo Stock Exchange in Sri Lanka. The study focused on the performance of firms listed for the periods 2008-2012. Profitability and Return on Equity were employed as measures of company performance while dividend payout and Earnings ratio were employed as determinants of dividend policy. Results of the study indicated that measures of company performance such as ROE and Profitability were insignificantly associated with dividend payout and Earnings ratio meaning firms do not properly practice dividend policy guidelines.

Xu (2013) inspected the effect of benefit usage on money related execution of firms recorded on Shanghai Stock Exchange 50 for the period January 2008 to December 2012. He measured asset utilization by total asset turnover ratio and used multiple regressions with ordinary least squares. Results of the study revealed that both sorts of firm execution estimation (ROA and ROE) had positive and significant relationship with resources usage and firm execution. The study suggests that higher resource usage should enable companies boost their piece of stock by concentrating on their regions of ability, by expanding their rate, by freeing assets to reserve development and by decreasing overheads that allow bring down costs to be managed.

Agyei (2011) conducted a research on share policy and bank performance in Ghana between the years 1999 to 2003. The target population for the study was 16 financial institutions in Ghana. Secondary data was obtained from monetary books from the department of banking management of the Bank of Ghana. The used a fixed effect model for analysis. The findings of the study showed that standard share payout by the financial institutions over the time of research was 24.65% and it was realized that banks which paid dividends increased their performance. Normally, the results were in agreement with the results of other studies that the policy of dividend payout influences firm worth.

Parsian, Koloukhi and Abdolnejad (2013) sought to assess the utilization of the share payout ratio as a determinant for a company's prospective profits development on listed companies in Iran stock exchange. The findings of the study revealed a positive association between share payout proportions and potential profits development. The findings are

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consistent with the results of a research by Dilawer (2012) on the effect of the management of profits on the payout of dividend plan which indicated that management of profits had a negative association with payout of dividend plan.

Another study by Hanif (2013) focused on the association between dividends, earning and investment for firms listed on the Karachi Stock Exchange (KSE). The findings of the study disclosed positive relationship among earning, investment and dividends. The findings further showed that a rise in the dividend is linked to a bigger pre-tax working profit impacts which dominated after tax effects. A broader portfolio of dynamically disposed dividend and the size of the company influence the payout proportion for dividends.

Bitok, Tenai, Cheruiyot, Maru, Kipsat (2010) carried out a research to ascertain the degree of business payout to investors as well as assess whether the best possible share policy existed for firms listed at NSE. The target population for the study 43 firms listed at Nairobi Stock Exchange between the years 1991 to 2003. They employed a dividend model. the study categorized firms with less than 50% payout of dividend as low payout while those firms with more than 50% payout of dividend were termed as high payout. Alternatively, companies with standard deviation of dividend payout higher than 35% were deemed to be unpredictable while those with standard deviations of payout below 35% were deemed to be predictable. Results of the study indicated that combined dividend payout proportion was 44.14% in Kenyan markets. The results on the standard business share payout to investors indicated that 28% of the firms listed at NSE compensated bigger and steady

dividends while 40% of them were small and stable. Majority of the companies that compensated bigger and steady dividends were blue chip companies.

Another study by Mbuki (2010) assessed determinants of dividend payout ratio among Savings and Credit Cooperative Societies (SACCO) in Kenya. The data was collected in September 2010. Out of 5,000 registered SACCO's in Kenya, a sample of 25 SACCO's was selected and the mode of selection was based on the fact that the 25 SACCO's have their headquarters in Nairobi. The results were analyzed using regression method. The study established that SACCO's profitability, growth opportunity, cash flow and size variables positively influenced dividend payout ratio, while risk variable negatively influenced dividend payout ratio.

Kibet (2012) also sought to determine the effect of earnings on share payout by firms listed at the NSE between the years 2007 to 2011. The sample size for the research was 34 firms listed at NSE. The study did not consider companies within the finance and accounting due to varying structures for assets and debts as compared to other companies listed at NSE. The findings of the study indicated that profitability, business tax, growth of sales, commerce and earnings ratio was positively correlated. The results further showed that dividends payout had a negative relationship with cash flow.

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Yegon *et al* (2014) conducted a study to assess the impact of share payout on firm's monetary cost effectiveness of listed manufacturing firms in Kenya. Their objective was to establish the link with share plan and effectiveness of the company and the returns per

dividend. Secondary figures from the yearly monetary reports were used. The target population for the study was 9 manufacturing firms in Kenya between the years 2003 to 2013 listed at NSE. Results indicated that a significant positive association linking dividend policy and investments and dividend for each earnings.

Mutisya (2014) wanted to assess the association linking profit payout and budgetary execution of companies listed in the NSE. A relapse examination was carried out to set up the connection involving profit payout and company execution utilizing information got from the monetary proclamations of recorded firms in the Nairobi Securities Exchange. The monetary information utilized for the study secured the period somewhere around 2009 and 2013. The logical factors included profit payout, which was calculated as the proportion of profit for each dividend and income per share. Company size was calculated as the normal logarithm of aggregate resources of the recorded firms. The organizations' influence was measured as the proportion of aggregate obligation isolated by the book estimation of benefits of the organizations. The discoveries showed that profit payout was a main consideration influencing firm execution. The outcomes likewise demonstrated critical connections between profit for resources, profit payout, company's size and influence. In light of the discoveries, the study reasoned that for recorded firms in Nairobi Securities Exchange, size and influence do impact the arrival on resources. The positive relationship of association's size and profit for resources demonstrated that expanding the firm size is connected with an expansion in budgetary execution.

2.5 Conceptual Framework

The conceptual framework provides a link between the study variables which are dividend payout as the independent variable measured as the amount of dividend payout as well as earnings per share and the dependent variable which is financial cost effectiveness calculated as the earnings on assets. There are also control variables which are leverage and retained earnings that also affect financial performance of firms listed.

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┌─────────────────────────────┐
│ Independent variables       │
└─────────────────────────────┘

┌─────────────────────────────┐
│ Dividend payout             │
│    • Amount of dividends paid│
│    • Earnings per share      │        ┌─────────────────────────────┐
│                             │────────▶│ Dependent variable          │
│                             │         └─────────────────────────────┘
└─────────────────────────────┘

┌─────────────────────────────┐         ┌─────────────────────────────┐
│ Control variables           │         │   Financial performance     │
└─────────────────────────────┘────────▶│    • Return on Assets       │
                                         └─────────────────────────────┘
┌─────────────────────────────┐
│                             │
│    • Leverage               │
│                             │
│    • Retained earnings      │
│                             │
└─────────────────────────────┘
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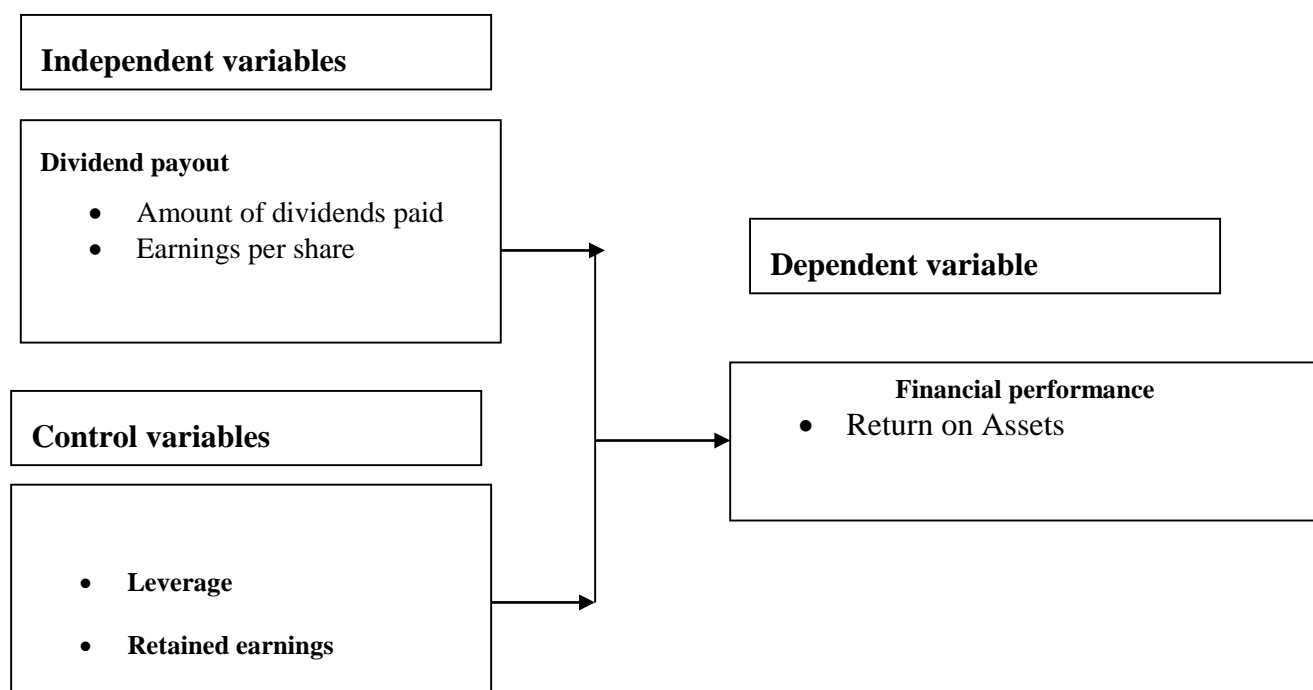
Figure 2.1 Conceptual Framework

2.6 Summary of the Literature Review

A study by Velnampy, Nimalthasan & Kalaiarasi (2014) on share strategy and the cost effectiveness of industrialized firms listed on Colombo Stock Exchange in Sri Lank indicated that drivers of company cost effectiveness such as earning on equity and liquidity are not significantly correlated with share payout and income per dividend meaning firms do not properly practice dividend policy guidelines. Xu (2013) also inspected the effect of benefit usage on money related execution of companies recorded on Shanghai Stock Exchange 50 for the period January 2008 to December 2012 and revealed that both sorts of firm execution estimation (ROA and ROE) had positive and significant relationship with resources usage and firm execution.

A study by Bitok, Tenai, Cheruiyot, Maru, Kipsat (2010)on the level of business payout to investors as well as assess whether the best possible share policy existed for companies listed at Nairobi Stock Exchange indicated that combined dividend payout proportion was 44.14% in Kenyan markets. The results on the standard business share payout to investors indicated that 28% of the firms listed at NSE compensated bigger and steady dividends while 40% of them were small and stable. Majority of the companies that compensated bigger and steady dividends were blue chip companies. Another study by Mbuki (2010) on factors that determine dividend payout ratio among Savings and Credit Cooperative Societies (SACCO) in Kenya established that SACCO's profitability, growth opportunity, cash flow and size variables positively influenced dividend payout ratio, while risk variable negatively influenced dividend payout ratio. Reviewed studies presents contextual knowledge gaps which this study sought to fill.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This part presents the methodology that was employed to accomplish the study objectives. The section presented the study design, population, sample size evaluation method, data gathering and the techniques for investigation.

3.2 Research Design

Explanatory study design was adopted. It was appropriate for this study because it played a role in answering the "how" questions. The design provided an analysis of how one variable affected the other variables. The study questions were well answered as the research design applied guided the analysis method that aimed to establish a causal relationship between dividend payout and financial performance among listed firms at Nairobi Securities Exchange (Gill and Johnson, 2010).

3.3 Population

The population of the research was the 66 listed firms at the NSE by the year ending December 2016. According to the NSE handbook report 2016, 66 firms were listed by the end of December 2016. Data was collected on firm size, ownership concentration and asset utilization for the years 2012 to 2016.

3.4 Sample

The study conducted a census on all the 66 listed firms at NSE since the firms are few. Since the target population was less than 200, the study adopted a census technique. Data was collected on all the firms on a five-year period.

3.5 Data Collection

The research gathered secondary data using a secondary data collection sheet (Appendix I). The data was obtained from annual monetary reports of all the companies listed at Nairobi Securities Exchange. More data was collected from the NSE handbook reports which are published yearly.

3.6 Data Analysis

The data collected was secondary in nature. Quantitative analysis methodology was adopted for this study. To examine the impact of dividend payout on financial performance, inferential statistics was adopted. The particular inferential statistics was correlation and regression analysis. Correlation was used to establish the association between dividend payout and financial performance. Regression analysis was used to indicate the change in financial performance if there is a change in the dividend payout. The tool of analysis was the statistical Package for Social Science (SPSS V.22).

3.6.1 Regression Model

A regression model was employed to determine the relationship between dividend payout and financial performance. The independent variables of the study were amount of

dividends paid, earnings per share, retained earnings and leverage while the dependent variable was financial performance. Because of the presence of more than one predictor variable, a multivariate regression analysis was suitable. The model was as indicated below;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where Y – Financial performance

X_1 – Amount of dividends paid

X_2 – Earnings per share

X_3– Leverage

X_4– Retained earnings

ε – Is the error term

β – Predictor variables coefficients

3.6.2 Test of Significance

The study used F test to establish the significance of the model. Analysis of Variance (ANOVA) was also conducted to establish the model significance. A comparison of the t values was used to test the significance of the study variables. Since the data set was above 30 observations, the study used the z values form a normal distribution table at 95% confidence level which is 1.96 and compared against the t critical results to establish the significance of the study variables. The study also conducted diagnostic tests of

multicollinearity, Autocorrelation and Heteroskedasticity and the rejection criteria of their

null hypothesis were done at 5%.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

The chapter presents the findings of the data collected and analyzed. The presentation is for the trend analysis, descriptive findings and inferential analysis. Secondary data was used in the study

4.2 Trend Analysis

The study established the trends to indicate the changes in the study variables over the study period spanning 4 years. Secondary data was used for the study.

4.2.1 Trend Analysis of Financial Performance

The results revealed steady increasing trends in the ROA of the firms listed on Nairobi Securities Exchange for the financial year 2013 and 2015 after which it increased sharply from the year 2015 to the year 2016. The findings reveal good performance in the financial performance of the firms listed on Nairobi Securities Exchange as shown by increasing ROA for the last 3 years.
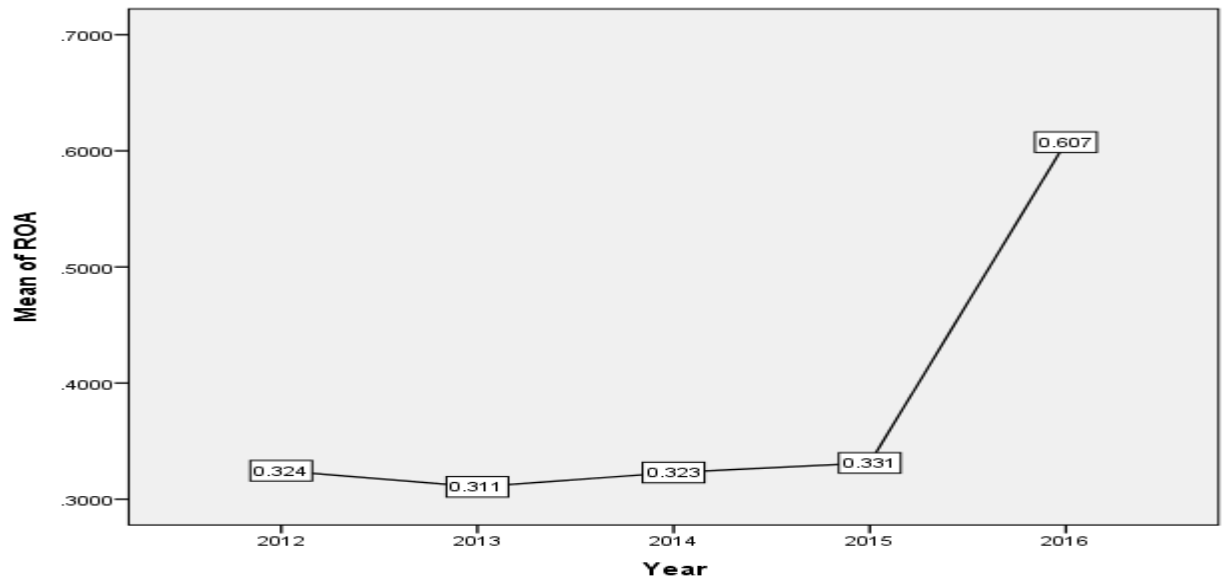
Figure 4.1: Trend Analysis of ROA

Source: Research Data

4.2.2 Trend Analysis of Amount of dividends paid

The findings reveal an increasing amount of dividends paid between the year 2012 and the year 2013. Between the year 2013 and 2014, the amount of dividends paid decreased after which it increased sharply from year 2014 to year 2016. The findings reveals that firms listed on Nairobi Securities Exchange recorded an increasing amount of dividends paid for the last 3 years from 2014 to 2016; this implies that firms listed on Nairobi Securities Exchange recorded an increasing financial performance.
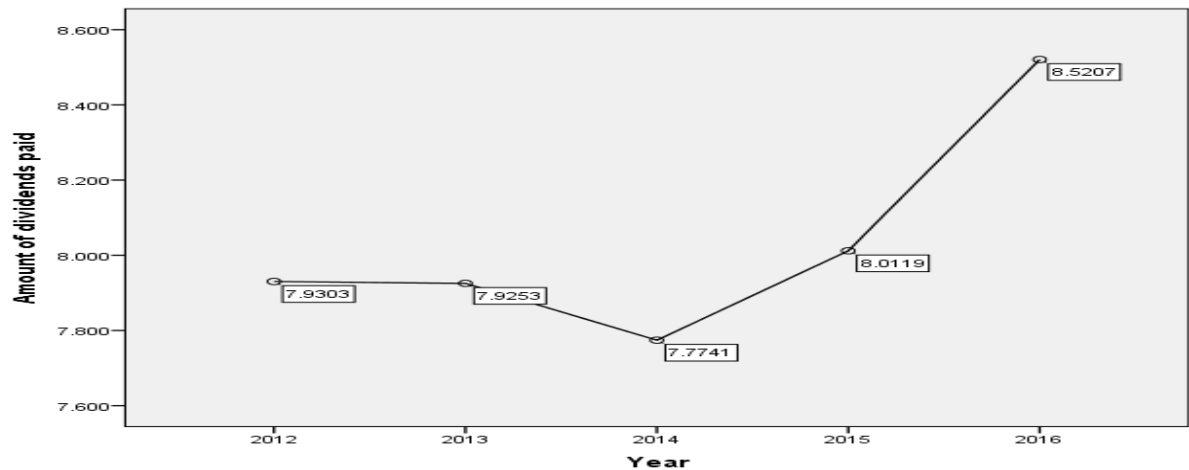
Figure 4.2: Trend Analysis of Amount of dividends paid

Source: Research Data

4.2.3 Trend Analysis of Amount of Earnings per share

The results revealed that there was a slight increase in the earnings per share of the firms listed at Nairobi Securities Exchange for the financial year 2012 and 2013 after which it decreased sharply from the year 2013 to the year 2015. There was a sharp increase in amount of earnings per share from year 2015 to year 2016. The study findings revealed unsteady treads of amount of earning per share of the firms listed at Nairobi Securities Exchange except for the year between 2015 and 2016firms listed at Nairobi Securities Exchange recorded a sharp increase amount of earnings per share.
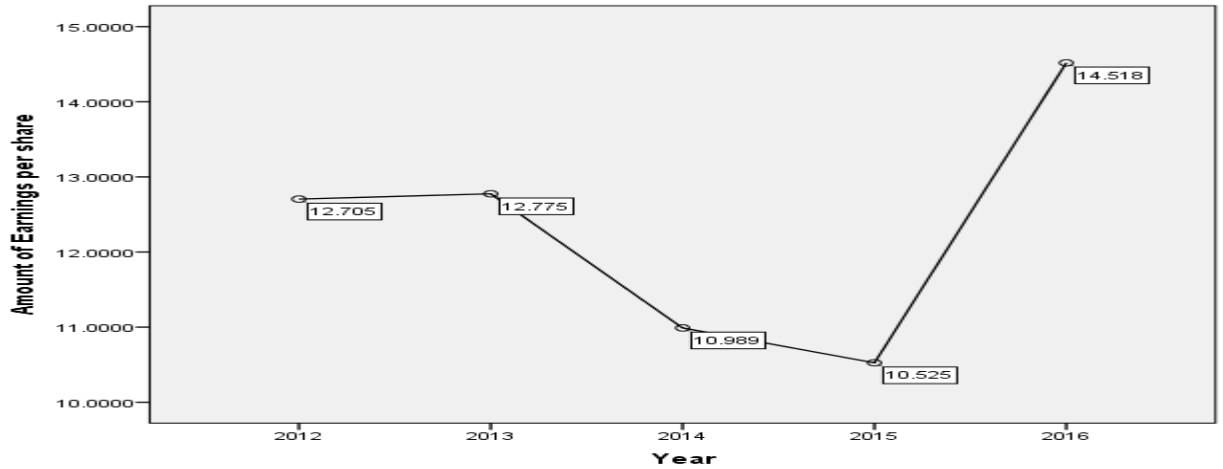
Figure 4.3: Trend Analysis of Amount of Earnings per share

Source: Research Data

4.2.4 Trend Analysis of Leverage ratio

The findings reveal a decreasing leverage ratio between the year 2012 and the year 2015 then there was a slight increase from year 2015 to year 2016. This indicated that firm listed at Nairobi Securities Exchange recorded a decreasing leverage ratio for study period, thus implying that firms listed at Nairobi securities exchange recorded less volatile earnings as result of additional interest expense leading to reduced financial risks for the investors.
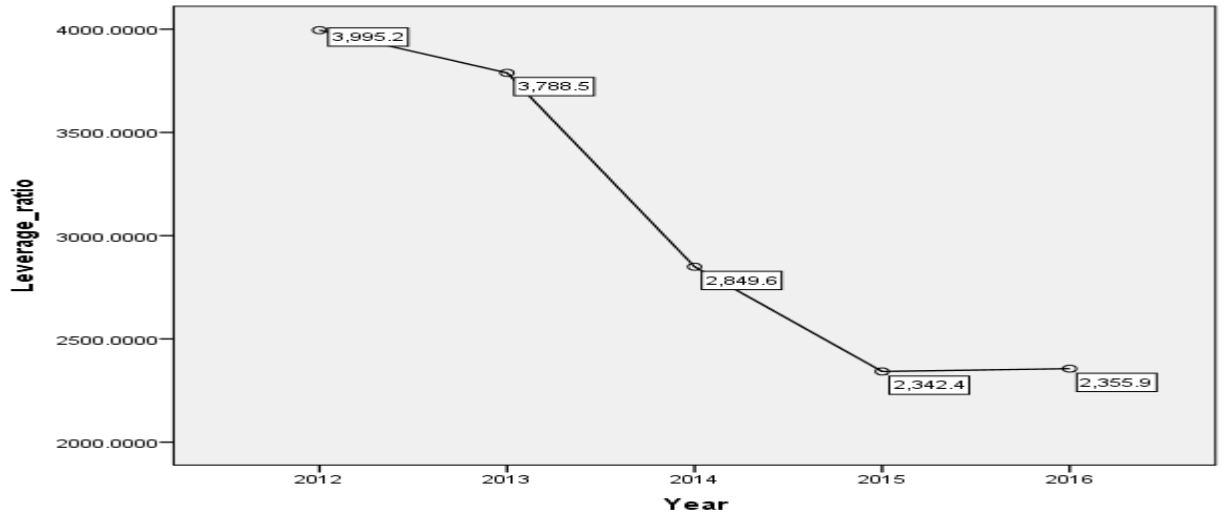
Figure 4.4: Trend Analysis of Leverage ratio

Source: Research Data

4.2.5 Trend Analysis of Retained earnings

The trend analysis results reveal unsteady trends in retained earnings for the first 4 years, between the year 2012 to year 2015. There was a sharp increase in the retained earnings in the last one year of the study period, which is between year 2015 and year 2016. This implies that the retained earnings of the firms listed at Nairobi Securities Exchange have been unstable for the study period hence fluctuating financial performance.
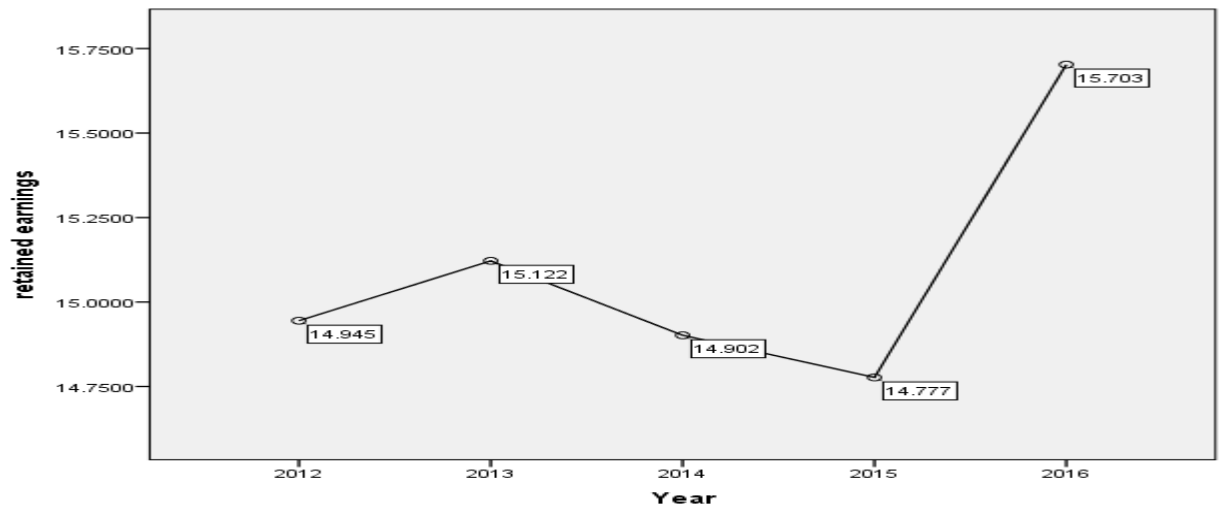
Figure 4.5: Trend Analysis of Retained earnings

Source: Research Data

4.3 Diagnostic Tests

The study conducted diagnostic tests to establish whether the data was suitable to run an ordinary least square regression model. The tests of Heteroscedasticity, Autocorrelation and Multicollinearity were conducted before running the regression model.

4.3.1 Multicollinearity Test

Multicollinearity is said to exist when the independent variables are highly correlated with a correlation above 0.8. The presence of Multicollinearity produces spurious standard errors and gives false prediction. This study used a variance inflation factor (VIF) method to test for Multicollinearity of the study variables. The results as shown in Table 4.1 revealed that there was no presence of Multicollinearity since all the values of VIF were below 10. This implies that the use of OLS in estimating the effect of IFMIS on financial performance would not give spurious results.

Table 4.1 Variance Inflation Factor Test of Multicollinearity

	Tolerance	VIF
Amount of dividends	0.953	1.049
EPS	0.962	1.039
Retained earnings	0.988	1.012
Leverage ratio	0.98	1.02

Source: Research Data

4.3.1 Test of Autocorrelation

The study sought to establish whether the error term of the OLS regression model was auto correlated since the data was collected monthly on a four year period. One of the assumptions of OLS is that the error term should not be auto correlated over time. The study used Durbin-Watson test to establish the presence of Autocorrelation. A value of 2 reveals absence of autocorrelation, a value less than 2 reveals positive autocorrelation while a value greater than 2 reveals presence of negative autocorrelation. The findings in Table 4.2 revealed the presence of positive autocorrelation and hence the study adopted robust standard errors to control for the autocorrelation.

Table 4.2 Durbin Watson Test of Autocorrelation

Test	Statistic
Durbin Watson	0.770

Source: Research Data

4.3.2 Test of Heteroskedasticity

Heteroskedasticity is a condition where the error terms do not have constant variance. One of the assumptions of OLS is that the error terms should have a constant variance (Homoscedastic). To test for the presence of Heteroskedasticity, the study adopted Breusch Pagan Godfrey test and the results in Table 4.3 reveal that since the observed probability chi-square was significant at 5% level of significance, there was presence of Heteroskedasticity. This led to the study running a regression using robust standard errors to control for the effects of Heteroskedasticity.

Table 4.3 Breusch-Pagan-Godfrey Test of Heteroskedasticity

Heteroskedasticity Test: Breusch-Pagan-Godfrey			
F-statistic	9.536	Prob. F(4,211)	0.000
Obs*R-squared	33.071	Prob. Chi-Square(4)	0.000
Scaled explained SS	257.049	Prob. Chi-Square(4)	0.000

Source: Research Data

4.4 Correlation Analysis

The study to determine the effect of dividend payout on the financial performance of the firms listed on Nairobi Securities Exchange using a Pearson Correlation analysis. The findings are established in Table 4.4.

The findings reveal that there is a positive and significant correlation between amount of dividends paid and ROA of the firms listed on Nairobi Securities Exchange (r = 0.171, Sig

= 0.002). This implies that an increase in the amount of dividends paid leads to an improvement in ROA of the firms listed on Nairobi Securities Exchange.

The findings also showed that there is a negative and insignificant correlation between earnings per share and ROA of the firms listed on Nairobi Securities Exchange ($r = -0.066$, Sig = 0.234). This implies that an increase in the earnings per share leads to a decrease in ROA of the firms listed on Nairobi Securities Exchange.

The results revealed that there is a positive and significant correlation between Retained earnings and ROA of the firms listed on Nairobi Securities Exchange ($r = 0.258$, Sig = 0.000). This implies that an increase in retained earnings leads to an improvement in ROA of the firms listed on Nairobi Securities Exchange.

The findings also showed a negative and insignificant correlation between leverage ratio and ROA of the firms listed on Nairobi Securities Exchange ($r = 0.743$, Sig = 0.000). This implies that an increase in the leverage ratio leads to an improvement in ROA of the firms listed on Nairobi Securities Exchange.

Table 4.4 Correlation Results

	Correlations	Amount of dividends paid	Earnings per share	Retained earnings	Leverage	ROA
Amount of dividends paid	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	325				
Earnings per share	Pearson Correlation	-.164**	1			
	Sig. (2-tailed)	0.003				
	N	325	325			
Retained earnings	Pearson Correlation	-0.08	0.082	1		
	Sig. (2-tailed)	0.148	0.141			
	N	325	325	325		
Leverage	Pearson Correlation	-.115*	-0.061	-0.012	1	
	Sig. (2-tailed)	0.039	0.269	0.824		
	N	325	325	325	325	
ROA	Pearson Correlation	.171**	-0.066	.258**	-0.018	1
	Sig. (2-tailed)	0.002	0.238	0.000	0.742	
	N	325	325	325	325	325
** Correlation is significant at the 0.01 level (2-tailed).						
* Correlation is significant at the 0.05 level (2-tailed).						

Source: Research Data

4.5 Regression Analysis

A regression model was used to establish the effect of dividend payout (amount of dividends paid and earnings per share) as well as the control effect of retained earnings and leverage on financial performance of firms listed at NSE. The regression model took the following form.

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$$

Where Y − Financial performance, X_1 − Amount of dividends paid, X_2 − Earnings per share, X_3 − Leverage, X_4 − Retained earnings, ε − Is the error term and β − Predictor variables coefficients.

The regression analysis results presented in Table 4.5 indicates that the coefficient of determination (R squared) was 0.107 which implies that 10.7% of the changes in ROA of the firms listed on Nairobi Securities Exchange is explained by the predictor variables that is amount of dividends paid, earnings per share, leverage and retained earnings. This shows that the remaining percentage of 89.3% of the variation in financial performance of firms listed on Nairobi Securities Exchange is explained by other factors other than amount of dividends paid, earnings per share, leverage ratio and retained earnings.

Table 4.5: Coefficient of Determination

R	R Square	Adjusted R Square	Std. Error of the Estimate
0.327	0.107	0.096	0.891665
Predictors: (Constant), Leverage ratio, Retained earnings, Earnings per share, Amount of dividends paid			

Source: Research Data

The study also established the model significance of the regression model linking dividend payout to ROA of the firms listed on Nairobi Securities Exchange including the control effect of leverage and retained earnings. The study findings revealed that the overall model was significant. The F statistic for the model of 9.599 was significant (Sig = 0.000), hence an indication that the model linking dividend payout to ROA of the firms listed on Nairobi Securities Exchange was significant.

To collaborate the findings, the study also used the F-distribution table to obtain the F-critical value (F 0.05 (4,320)) calculated at $\propto$ = 5%, using denominator degrees of freedom of 320 and numerator degrees of freedom of 4 and compared against the F-calculated value of 9.599. The rule of the thumb is that if F-calculated is greater than the F-critical, then the model is significant. The F-critical value from the F-distribution table was 2.400, which is less than 9.599 hence it confirms the previous findings that the model linking to ROA of the firms listed on Nairobi Securities Exchange was significant.

Table 4.6: Overall Model Significance

	Sum of Squares	df	Mean Square	F	Sig.
Regression	30.528	4	7.632	9.599	0.000
Residual	254.421	320	0.795		
Total	284.949	324			
Dependent Variable: ROA					
Predictors: (Constant), Leverage ratio, Retained earnings, Earnings per share, Amount of dividends paid					

Source: Research Data

The results showed that the amount of dividends paid by firms listed at NSE have a positive and significant effect on the financial performance of the firms (Beta = 0.184, Sig = 0.001). This reveals that one unit increase in the amount of dividends paid leads to a 0.184 units increase in ROA of the firms listed on Nairobi Securities Exchange.

The results also showed that Earnings per Share of the firms listed at NSE have a negative but not significant effect on the financial performance of the firms (Beta = -0.058, Sig = 0.282). This reveals that one unit increase in the EPS of firms listed at NSE leads to a 0.058 units decrease in ROA of the firms.

The results reveal that retained earnings has a positive and significant effect on ROA of the firms listed on Nairobi Securities Exchange (Beta = 0.275, Sig = 0.000). This reveals that one unit increase in the retained earnings leads to a 0.275 units increase in ROA of the firms listed on Nairobi Securities Exchange.

The effect of using leverage ratio was negative but not significant (Beta = 0.003, Sig = 0.125). This implies that a one unit increase in the leverage ratio leads to an insignificant decrease in in ROA of the firms listed on Nairobi Securities Exchange.

Table 4.7: Regression Model Coefficients

	B	Std. Error	t	Sig.
(Constant)	1.272	0.294	4.333	0.000
Amount of dividends paid	0.184	0.008	3.408	0.001
Earnings per share	-0.058	0.001	-1.077	0.282
Retained earnings	0.278	0.018	5.231	0.000
Leverage ratio	0.003	0.000	0.051	0.96
Dependent Variable: ROA				

Source: Research Data

4.6 Interpretation of Results and Discussions

The trends analysis results revealed good performance in the financial performance of the firms listed on Nairobi Securities Exchange as shown by increasing ROA for the last 3 years. The results also revealed that firms listed on Nairobi Securities Exchange recorded an increasing amount of dividends paid for the last 3 years from 2014 to 2016; this implies that firms listed on Nairobi Securities Exchange recorded an increasing financial performance. The trends analysis indicated unsteady treads of amount of earning per share of the firms listed at Nairobi Securities Exchange except for the year between 2015 and 2016 firms listed at Nairobi Securities Exchange recorded a sharp increase amount of earnings per share.

The trend analysis further indicated that firm listed at Nairobi Securities Exchange recorded a decreasing leverage ratio for study period, thus implying that firms listed at Nairobi Securities Exchange recorded less volatile earnings as result of additional interest expense leading to reduced financial risks for the investors. The trend analysis further implied that the retained earnings of the firms listed at Nairobi Securities Exchange was unstable for the study period hence fluctuating financial performance.

The study findings showed that an increase in the amount of dividends paid leads to an improvement in ROA of the firms listed on Nairobi Securities Exchange. The findings are consistent with the findings of study by Amidu and Abor (2006) who opine that a positive association is anticipated to be between cash flow, profitability and payout of shares.The study results are also consistent with the study results by Mbuki (2010) who established that SACCO's profitability, growth opportunity, cash flow and size variables positively influenced dividend payout ratio.

The study also findings also showed that an increase in the earnings per share leads decrease in ROA of the firms listed on Nairobi Securities Exchange. The findings are consistent with the findings of studies by Kibet (2012) who showed that dividends payout had a negative relationship with cash flow. Similarly, the study results are also inconsistent with the study findings of Parsian, Koloukhi and Abdolnejad (2013) that revealed a positive association between share payout proportions and potential profits development.

The results further revealed that an increase in the retained earnings leads to an improvement in ROA of the firms listed on Nairobi Securities Exchange. The findings are consistent with the findings of a study by Yegon*et al* (2014) which indicated a positive significant association between dividend policy and investments and share for each earnings.

Lastly, the findings also showed that an increase in the leverage ratio leads to an insignificant decrease in ROA of the firms listed on Nairobi Securities Exchange. The findings are consistent with the findings of a study by Velnampy, Nimalthasan and Kalaiarasi (2014) who indicated that measures of company performance such as ROA and Profitability were insignificantly associated with dividend payout and Earnings ratio meaning firms do not properly practice dividend policy guidelines.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter contains a summary of the findings, recommendations and suggestions for further research. The responses arrived at were based on the objectives of study. The study sought to establish the effect of dividend payout on the financial performance of the firms listed at Nairobi Securities Exchange. The study focused on the amount of dividends paid as well as the earnings per share with the control effect of leverage and retained earnings.

5.2 Summary of Findings

The study sought to establish the effect of dividend payout on the financial performance of the firms listed at Nairobi Securities Exchange. Specifically, the study sought to establish the effect of the amount of dividends paid as well as the earnings per share and the control effect of leverage and retained earnings on financial performance of firms listed at NSE. The findings involved the trends analysis, correlation and regression analysis.

The trends analysis results revealed good performance in the financial performance of the firms listed on Nairobi Securities Exchange as shown by increasing ROA for the last 3 years. The trends analysis indicated unsteady treads of amount of earning per share of the firms listed at Nairobi Securities Exchange except for the year between 2015 and 2016 firms listed at Nairobi Securities Exchange recorded a sharp increase amount of earnings per share. The trend analysis further indicated that firm listed at Nairobi Securities Exchange recorded a decreasing leverage ratio for study period, thus implying that firms

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listed at Nairobi Securities Exchange recorded less volatile earnings as result of additional interest expense leading to reduced financial risks for the investors. The trend analysis further implied that the retained earnings of the firms listed at Nairobi Securities Exchange was unstable for the study period hence fluctuating financial performance.

The results showed that the amount of dividends paid by firms listed at NSE have a positive and significant effect on the financial performance of the firms (Beta = 0.184, Sig = 0.001). This reveals that one unit increase in the amount of dividends paid leads to a 0.184 units increase in ROA of the firms listed on Nairobi Securities Exchange. The results also showed that Earnings per Share of the firms listed at NSE have a negative but not significant effect on the financial performance of the firms (Beta = -0.058, Sig = 0.282). This reveals that one unit increase in the EPS of firms listed at NSE leads to a 0.058 units decrease in ROA of the firms.

The results reveal that retained earnings has a positive and significant effect on ROA of the firms listed on Nairobi Securities Exchange (Beta = 0.275, Sig = 0.000) revealing that one unit increase in the retained earnings leads to a 0.275 units increase in ROA of the firms listed on Nairobi Securities Exchange. The effect of using leverage ratio was negative but not significant (Beta = 0.003, Sig = 0.125) implying that a one unit increase in the leverage ratio leads to an insignificant decrease in in ROA of the firms listed on Nairobi Securities Exchange.

5.3 Conclusions

The study concluded that the amount of dividends paid positively and significantly affects financial performance. This implies that an increase in the amount of dividends paid leads to an improvement in ROA of the firms listed on Nairobi Securities Exchange. These study findings are consistent with the findings of study by Amidu and Abor (2006) who opine that a positive association is anticipated to be between cash flow, profitability and payout of shares. The study results are also consistent with the study results by Mbuki (2010) who established that SACCO's profitability, growth opportunity, cash flow and size variables positively influenced dividend payout ratio.

The study also concluded that earnings per share have a negative but not significant effect on financial performance of firms listed at NSE. The findings imply that an increase in the earnings per share leads to a decrease in ROA of the firms listed on Nairobi Securities Exchange. These findings are consistent with the findings of studies by Kibet (2012) who showed that dividends payout had a negative relationship with financial performance. However, the findings are not consistent with Parsian, Koloukhi and Abdolnejad (2013) who revealed a positive association between share payout proportions and potential profits development.

The study further concluded that retained earnings have a positive significant effect on financial performance of firms listed at NSE. This implies that an increase in the retained earnings leads to an improvement in ROA of the firms listed on Nairobi Securities Exchange. The results further revealed that an increase in the retained earnings leads to an

improvement in ROA of the firms listed on Nairobi Securities Exchange. The findings are consistent Yegon *et al* (2014) who established a positive effect of retained earnings on financial performance. The study findings also led to the conclusion that leverage ratio negatively but insignificantly affect financial performance. This implies that an increase in the leverage ratio leads to an insignificant decrease in in ROA of the firms listed on Nairobi Securities Exchange.

5.4 Recommendations

The study recommends that since the amount of dividends paid affect financial performance of firms listed at Nairobi securities exchange positively, the study recommends that the firms listed at NSE can consider revising their dividend payout policy so as to allow for payment of more dividends especially when there is a need to attract more investors with an aim of improving the financial performance in terms of return on assets.

The study also recommends that since retained earnings positively affects financial performance of firms listed at NSE; the study also recommends that firms listed at NSE can consider revising their investment decisions and policy to use more of retained earnings in financing decisions than other modes of financing such as the use of debts and shareholders' equity.

5.5 Limitations of Study

However accurate, no study is free of limitations. The data used was secondary in nature and its accuracy is a concern. The researcher is not aware of how it was prepared and the various manipulations and assumptions that were used when preparing and presenting it. The study however ensured that the source of the data was reliable and thus more emphasis was placed on the use of data from the NSE handbook.

The study only focused on for a period of 5 years from the year 2012 to the year 2016, Perhaps using a longer time period would have yielded different trends and results. One may therefore ask, would the relationship hold for more than 5 year span?.

The study also focused on the listed firms only and the focus was across various sectors. The heterogeneity issue across the sectors was not considered in the study. The conditions of operation of one sector from another may be different and thus can affect the study variables. However, the coverage of the whole sector gave in depth analysis.

The study also applied an ordinary least square regression model to establish the relationships between the variables. This was pooled in nature; however the data was panel in form. The use of a pooled regression model that doesn't consider panel analysis was justified on the basis that there was missing data from the firms which had been delisted. This made the panel to be unbalanced and it made it difficult to adopt panel regression analysis. The use of ordinary least square regression model was suitable after testing for the assumptions of OLS such as Autocorrelation and Heteroskedasticity.

5.6 Suggestions for Further Study

The study purely used secondary data. There is a need to also incorporate other sets such as quantitative primary data which can complement the secondary data. Primary data would allow for probing and obtaining the opinions of the managers of the firms listed at NSE. The study suggests that further areas of study should focus on a longer time span, probably 10 years with the inclusion of the year 2017 after the budgetary allocations. This would clarify whether the observed relationship changes over the years. A longer time period would be appropriate because it would cover times of shock in the economy such as political instability and oil price shocks.

This study focused on firms listed on Nairobi securities exchange and there may be a need to focus on a larger contextual scope so as to compare the findings. Future studies can consider focusing on non-listed firms and compare the findings to ascertain whether the findings hold for the Kenyan economy. Future studies can as well focus on a single sector due to take advantage of the homogeneity and establish whether similar findings would be established.

This study presents methodological gaps due to the fact that it applied an ordinary regression model in the analysis. Future studies can consider using alternative methods of analysis such as the use of panel regression analysis of Random effects or fixed effects regression models. That would enhance the findings.

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Appendix I: Data Collection Sheet

Company	Year	Amount of Dividends Paid	Earnings Per Share	Leverage	Retained Earnings	ROA
	2012					
	2013					
	2014					
	2015					
	2016					

Appendix II: Firms listed at the NSE as at 30th December 2016

1) Eaagads Ltd Ord 1.25 AIMS
2) Kapchorua Tea Co. Ltd OrdOrd 5.00 AIMS
3) Kakuzi Ord.5.00
4) Limuru Tea Co. Ltd Ord 20.00
5) Rea Vipingo Plantations Ltd Ord 5.00
6) Sasini Ltd Ord 1.00
7) Williamson Tea Kenya Ltd Ord 5.00
8) Car and General (K) Ltd Ord 5.00
9) Sameer Africa Ltd Ord 5.00
10) Marshalls (E.A.) Ltd Ord 5.00
11) Barclays Bank Ltd Ord 0.50
12) CFC Stanbic Holdings Ltd ord.5.00
13) I&M Holdings Ltd Ord 1.00
14) Diamond Trust Bank Kenya Ltd Ord 4.00
15) HF Group Ltd Ord 5.00
16) KCB Group Ltd Ord 1.00
17) National Bank of Kenya Ltd Ord 5.00
18) NIC Bank Ltd 0rd 5.00
19) Standard Chartered Bank Ltd Ord 5.00
20) Equity Group Holdings Ord 0.50
21) The Co-operative Bank of Kenya Ltd Ord 1.00
22) Express Ltd Ord 5.00
23) Kenya Airways Ltd Ord 5.00
24) Nation Media Group Ord. 2.50
25) Standard Group Ltd Ord 5.00
26) TPS Eastern Africa (Serena) Ltd Ord 1.00
27) Scangroup Ltd Ord 1.00
28) Uchumi Supermarket Ltd Ord 5.00
29) Hutchings Biemer Ltd Ord 5.00
30) Longhorn Publishers Ltd
31) Atlas Development and Support Services
32) Deacons (East Africa) PlcOrd 2.50
33) Nairobi Business Ventures Ltd
34) Athi River Mining Ord 5.00
35) Bamburi Cement Ltd Ord 5.00
36) Crown Berger Ltd 0rd 5.00
37) E.A.Cables Ltd Ord 0.50
38) E.A.Portland Cement Ltd Ord 5.00
39) KenolKobil Ltd Ord 0.05
40) Total Kenya Ltd Ord 5.00
41) KenGen Ltd Ord. 2.50
42) Kenya Power & Lighting Co Ltd

43) Jubilee Holdings Ltd Ord 5.00
44) Pan Africa Insurance Holdings Ltd 0rd 5.00
45) Kenya Re-Insurance Corporation Ltd Ord 2.50
46) Liberty Kenya Holdings Ltd
47) Britam Holdings Ltd Ord 0.10
48) CIC Insurance Group Ltd Ord 1.00
49) Olympia Capital Holdings ltd Ord 5.00
50) Centum Investment Co Ltd Ord 0.50
51) Trans-Century Ltd
52) Home Afrika Ltd Ord 1.00
53) Kurwitu Ventures
54) Nairobi Securities Exchange Ltd Ord 4.00
55) B.O.C Kenya Ltd Ord 5.00
56) British American Tobacco Kenya Ltd Ord 10.00
57) Carbacid Investments Ltd Ord 5.00
58) East African Breweries Ltd Ord 2.00
59) Mumias Sugar Co. Ltd Ord 2.00
60) Unga Group Ltd Ord 5.00
61) Eveready East Africa Ltd Ord.1.00
62) Kenya Orchards Ltd Ord 5.00
63) A.Baumann CO Ltd Ord 5.00
64) Flame Tree Group Holdings Ltd Ord 0.825
65) Safaricom Ltd Ord 0.05
66) StanlibFahari I-REIT