THE EFFECT OF DIVIDEND PAYOUT RATIO ON FINANCIAL PERFORMANCE OF COMPANIES LISTED AT THE NAIROBI SECURITIES EXCHANGE.

BY

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DECLARATION

This research is my original work and has not been submitted to any other college or University for Academic credit.

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DEDICATION

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LIST OF ABBREVIATIONS

ATS	Automated Trading System
CEO	Chief Executive Officer
EPS	Earning Per Share
FCF	Free Cash Flow
LSE	London Stock Exchange.
NASI	Nairobi Stock Exchange All Shares Index
NPV	Net Present Value
NSE	Nairobi Stock Exchange
NYSE	New York Stock Exchange
US	United States
WAN	Wide Area Network

ABSTRACT

Financial performance of firms at the Nairobi Stock Exchange has been of essential interest to investors and firm managers. No trader or investor wishes to incur losses. Good financial performance is a primary indicator of the sustenance of a company. This research sought to establish the relationship between dividend payout ratio and financial performance among listed firms in the Nairobi Securities Exchange. All the firms trading at the Nairobi Securities Exchange formed the study population for this study. Twenty three companies were selected three from agricultural sector, five from commercial and services sector, five from financial and investment sector, seven from industrial and allied sectors and three from alternative investment sector. These companies were selected based on availability of data. Correlation was done to establish the type of relationship between the dividend pay-out ratio and the performance of the firms at the Nairobi stock exchange. Multiple regression analysis was carried out to establish the relationship between financial performance as the dependent variable and dividend payout ratio given by dividend per share divided by earnings per share, firm size measured by natural logarithm of market capitalization, tangible assets measured by natural logarithm of tangible assets of the firm and leverage given by total debt divided by shareholders equity as the independent variables. The data was obtained from the Nairobi Securities Exchange and was analyzed using SPSS. The findings indicated that dividend payout ratio was a major factor affecting financial performance. Their relationship was also strong and positive. This therefore showed that dividend policy was relevant. The study recommends that managers designing a dividend policy that will enhance financial performance and therefore shareholders value. Managers should also reduce their total debts to increase financial performance of firms and shareholder value. It can be concluded, based on the findings of this research that dividend policy is relevant and that managers should devote adequate time in designing a dividend policy that will enhance financial performance and therefore shareholder value.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Individuals invest in firms mainly because they expect returns of some form later. Corporations view the dividend decision as important because it determines what funds flow to investors and what funds are retained by the firm for reinvestment (Ambarish & Williams, 1987).It also provides information to stakeholders concerning the company performance. Dividend payout ratio indicates the proportion of total residual profits distributed as dividends to shareholders. It is calculated by dividing dividend per share with earnings per share and varies among firms. Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. Financial performance is also used as a general measure of a firms overall financial health over a given period of time and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation (Hales, 2005).

According to Miller and Modigliani (1961), the dividend decision does not affect the firm value and is therefore irrelevant. This was arrived at given perfect market conditions such as no taxes, no transaction costs, perfect competition and costless information. Other renowned finance scholars who agreed with Modigliani and Miller include: De Angelo and Skinner (1996), Land and Litzenberger (1989). There are other scholars who hold that dividends are relevant. They include Watts (1973), Lintner (1956), Miller (1987), Aharony and Swary (1980), Asquith and Mullins (1983), Pettit (1972), Benartzi, Michealy and Thaler (1997).

Those who hold that dividends are relevant argue that dividend policy affects the value of the firm because it conveys very important information to shareholders about the prospects of the

firm in future. The policy signals to investors management's confidence about a company's future profitability. Investors believe that managers who are better informed about the firm only increase dividend payout because managers forecast increased profitability.

The declaration of dividends is seen as a signal of positive returns in the future and investors can use this to make their investment decisions. It has been argued that managers are reluctant to recommend dividend increment unless they are confident that the future profitability of the company will increase to support the increment. Consequently, it has been hypothesized that a dividend increment is a harbinger of improved future profitability. This is so in spite of the fact that the normal direction of causable relationship is from earnings to dividends (Lintner, 1956).

1.1.1 Dividend Payout Ratio

Gugler (2003) argues that dividend payout ratio is the percentage of a company's net income that is given to shareholders in the form of dividend. It is calculated by dividing dividend per share by earnings per share.

$$\text{Dividend payout ratio} = \frac{\text{Dividends per share}}{\text{Earnings per share}}$$

While some investors prefer that a company reinvests its earnings back into the business to fuel future growth, many appreciate a generous cash dividend payment. For income oriented investors, the dividend payout ratio is a closely watched financial measure. Dividend payout ratios provide valuable insight into a company's dividend policy and can also reveal whether those payments appear "safe" or are in jeopardy of being reduced.

An excessively high payout ratio suggests that the company might be paying out more than it can comfortably afford. This is just a small percentage of profits to plow back into the business but also leaves the firm highly susceptible to a decline in future dividend payments. In some cases a

company will pay out more than it earns yielding a dividend payout ratio of over 100%. Such high payouts are rarely sustainable and should warn investors that a dividend cut may be on the horizon. The act of reducing dividends is interpreted as a sign of weakness, therefore when a dividend cut announcement is made, it usually triggers a decline in share-price. If management finds a way to maintain an extremely high dividend payout ratio, this strategy usually results in either a dwindling cash position or a rising debt load.

Al Najjar and Hussainey (2009) argue that firms use different rates when paying out dividends, such as constant payout ratio where firms pay a fixed dividend rate, which fluctuate as the earnings per share changes. Constant amount per share is where dividend per share is fixed irrespective of earnings levels .This creates certainity and is preferred by shareholders who have a high reliance on dividend income (Gitman, 2010). A residual dividend payout ratio may also be used, where dividends are paid out of earnings left over, after all investment opportunities have been financed. The policy is consistent with shareholders wealth maximization (Pandey, 2009).

1.1.2 Financial Performance

Financial performance of a firm is measured using profitability ratios. Profitability ratios offer several different measures of the success of the firm at generating profits. The gross profit margin is a measure of the gross profit earned on sales. The gross profit margin considers the firm's cost of goods sold, but does not include other costs. It is calculated as follows.

$$\text{Gross Profit Margin} = \frac{\text{Sales} - \text{Cost of Goods Sold}}{\text{Sales}}$$

Return on assets is a measure of how effectively the firm's assets are being used to generate profits. It is calculated as follows:-

Return on Assets = Net Income / Total Assets

Return on equity is the bottom line measure for the shareholders, measuring the profits earned for each dollar invested in the firm's stock. Return on equity is calculated as follows:-

Return on Equity = Net Income / Shareholder Equity

(www.NetMBA.com)

1.1.3 Effect of Payout Ratio on Financial Performance of Listed Companies

It is obvious that companies' managers try to maintain dividend levels and dividend payout ratio. Dividend level is an important net earnings benchmark. Managers are reluctant to cut dividend's and target long-term pay-out ratios when making dividend decisions. According to Lintner (1956), current earnings influence current dividend decisions through target payout ratio. Two important factors affecting dividend policy in a firm are the projected level of future earnings and the pattern of past dividends. Capital markets reaction to unexpected dividend decreases is negative.

According to Liu (2011), firms are likely to smooth dividend levels and dividend payout ratios. The dividend policies of a firm refers to the determination of the existing dividend as the core benchmark, setting a nearly fixed payout ratio as a target, evaluating the degree of relationship between changes in dividend payments and changes in earnings and finally making partial adjustment in dividends in response to these changes in earnings. These changes in earnings can be perceived as earnings manipulation. Miller and Rock (1985) suggested that dividend announcements provide the missing pieces of information about the firm and allows the market to estimate the firm's current earnings. Investors may have greater confidence that reported

earnings reflect economic profits when announcements are accompanied by ample dividends. If investors are more certain in their opinions, they may react less to questionable sources of information and their expectation of value may be insulated from irrational influence.

1.1.4 Nairobi Securities Exchange

The Nairobi Securities Exchange (NSE) is the principal securities exchange in Kenya. It was set up in 1954 as an overseas stock exchange while Kenya was still a British Colony with the permission of the London Stock Exchange (LSE). In the recent past, the stock exchange has undergone major changes and transformations and the level of activity has tremendously increased. A lot of interest in the stock exchange was generated in the 1980s when the government embarked on privatization program targeting state corporations. In 2006, Nairobi Securities Exchange implemented live trading on the Automated Trading System (ATS) which was customized to uphold the spirit of the Open Outcry Trading rules. In the same breadth, trading hours increased from two (10.00 am – 12.00 pm) to three hours (10.00 am – 1.00 pm).

In July 2007, Nairobi Securities Exchange reviewed the index and announced the companies that would constitute the NSE share index. A Wide Area Network (WAN) platform was also implemented in 2007 and this eradicated the need for brokers to send the staff (dealers) to the trading floor to conduct business. Trading is now mainly conducted from the brokers' offices through the WAN. In 2008, the NSE All Share Index (NASI) was introduced as an alternative index. Its measure is an overall indicator of market performance. The index incorporates all the traded shares of the day. In July 2011, the Nairobi Stock Exchange changed its name to the Nairobi Securities Exchange Limited.

The change of name reflected the strategic plan of the Nairobi Securities Exchange to evolve into a full service securities exchange which supports trading, clearing and settlement of equities, debt, derivatives and other associated instruments (www. nse. co. ke)

Dividend paying companies generate income for shareholders. Most of the companies listed on the NSE presently pay a dividend. However not all dividend paying companies are equal. Some do not yield much in relation to their price. Other companies pay out so much of their earnings that it hampers their future growth. Some disappoint shareholders with frequent dividend cuts. (www.investinginafrica.net). High level profitability in the year ending 2012, the highest since 2008 financial crisis has seen many companies raise the dividend payouts. This is due to expectations of positive performance by the listed firms as inflation and interest rates drop. The financial sector topped the list of corporate generosity to shareholders.

(www.businessdailyafrica.com)

1.2 Research Problem

The economic growth of any country depends on the volume of investments by both individuals and institutions. There has been low economic growth over past years. This has been indicated by bear market in recent years significantly reducing the NSE share index. Other factors behind the bear run include inflation, low investor confidence which make share prices not reflect the fundamentals of underlying companies in the stock market. Most Kenyans have been faced with the problem of where to invest their money for later returns. Wild price movements could lead to heavy investor losses in an investor's portfolio (Mendelson, 1976).

Miller and Modigliani (1961) outlined theoretical conditions under which dividend policy (and thus payout policy) would be rendered irrelevant. Subsequent research by Black (1976), argued that the payment of any dividends at all was anomalous since dividends were taxed at a higher

rate than capital gains. A defence of dividend payments came with the development of agency theory and the concern that free cash flow left within the company could be misappropriated by managers who were given insufficient incentives. Contemporary research by Arnolt and Asness (2003) has indicated that the payout ratio is positively associated with earnings growth. This could be because managers are using dividends to signal their expectations of future earning. Chief Executive Officers (CEOs) could be overinvesting either due to empire building or because of management overconfidence. Recent research has highlighted the relationship between payout ratio and returns. Lamont (1998) demonstrates that the payout ratio can be useful for predicting quarterly US market equity and returns.

Amidu (2007) found that dividend policy affects firm performance especially profitability measured by return on assets. The results showed a positive and significant relationship between return on assets, return on equity, growth in sales and dividend policy. This showed that when a firm has a policy to pay dividends, its profitability is influenced. Karanja (1987) conducted a study in which he found that a stable payout ratio (dividends as a percentage of profits attributable to ordinary shares) policy was the most popular with those companies that had a cash dividend policy. This showed that dividends vary directly with variations in earnings.

Kiptoo (2006) analyzed 13 companies trading at NSE between 1998 and 2002 and found out there is significant reaction by market to cash dividend. Iminza (1997) did a study to test whether or not there is a relationship between dividends and share prices and found out that dividends and share prices are highly correlated. Bitok (2004) studied the effect of dividend policy on the value of firms quoted at NSE. The researcher found that on average there was a significant positive relationship between the dividend policy and value of the firm. Nyagaka (2012) studied the relationship between the dividend payout ratio and market value of firms listed at the Nairobi

Securities Exchange. In the study he used correlation analysis to determine whether a relationship existed between dividend payout ratio and market value of firms listed at the Nairobi securities Exchange. He found that dividend payout ratio is positively correlated with market value although the association is low.

This study aims at analyzing the effect of dividend payout ratio on financial performance of companies listed at the Nairobi Securities Exchange. The study will use multivariate regression analysis to determine the effect of dividend payout ratio on financial performance of companies listed at the Nairobi Securities Exchange. The study will also determine the effect of dividend payout ratio on financial performance and whether firm size, tangible assets and leverage influence financial performance.

The study was guided by the following research question:-

- What is the effect of dividend payout ratio on financial performance of companies listed in the NSE?

1.3 Objective of the Study

To determine the relationship between dividend payout ratio and financial performance of companies quoted at Nairobi Securities Exchange.

1.4 Value of the Study

Investors

The study will help Kenyan investors to be in a better position to make decisions on companies they would prefer to invest in.

Managers

The study will assist managers to declare dividends that give a positive future image of a company.

Financial Analysis

This will increase their knowledge in relation to dividends therefore they can give advice to their clients with more confidence.

Academicians

This will add to the body of knowledge in finance and create room for further research.

Creditors

The study will give knowledge that can form a basis for formulating lending policies for different firms.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The main areas covered in this chapter include dividend theories, factors influencing firm performance, factors influencing dividend policy, previous studies and summary.

2.2 Theoretical Review

Several theories have been advanced to explain the relationship, if any, between dividends and shareholder wealth.

2.2.1 Dividend Irrelevance Theory

Miller and Modigliani (1961) argue that dividend policy has no effect on either the price of a firm's stock or its cost of capital. The value of the firm therefore depends on the investment decisions but not the dividend decision. MM argument is based on a number of key assumptions, some not attainable in the real world. The assumptions include no corporate or personal taxes on income, no stock fluctuation or taxation costs, the firm's investment policy is independent of dividend policy, the market is efficient and therefore investors have the same set of information regarding future investment opportunities. MM argued that under this set of assumptions, if a firm pays higher dividend, then it must sell more stock to new investors and hence the value of the company given up to the new investors is exactly equal to the dividend payout. Because investors are able to construct their own dividend policy, then dividend policy is irrelevant.

2.2.2 Bird in Hand Theory

This theory was advanced by John Lintner (1962) and Myron Gordon (1963). They argued that investors prefer to receive dividends "today" because current dividends are more certain than future capital gains that might result from investing retained earnings in growth opportunities. Investors therefore value dividend more than capital gains and a firm that pays dividend will

have a higher market value. They concluded that dividend decisions are relevant and a firm that pays higher dividend has higher value.

2.2.3 Tax Differential Theory

Litzenberger and Ramaswamy (1982) argue that investors prefer one dividend policy to another because of the tax effect on dividends received. Taxes on dividends must be paid in the same year dividends are received. Capital gains are not taxed until investments are sold. (In Kenya Capital Gains Tax has been suspended). Depending on an investor's tax position, he may prefer either payout of current earnings as dividends or capital gains associated with stock value.

2.2.4 Information Signaling Effect Theory

Ross (1977) observed that an increase in dividends is often accompanied by an increase in the prices of stock while a decline in dividend generally leads to a stock price decline. The payment of dividends is seen to convey to shareholders that the company is profitable and strong financially. Ross (1977) observes that in an efficient market, management can use dividends to signal important information to the market which is only known to them. For instance, if management pays high dividends it signals high profits expected in future to maintain the high dividend level. Solomon (1963) states, "In an uncertain world in which verbal statements may be misinterpreted or ignored, dividend action does provide a clear cut means of making a statement that speaks louder than a thousand words" . Asquith and Mullins (1963) estimate that stock prices rise about 3 percent following announcement of dividend initiations. Healy and Palepu (1988) and Michaely, Thalor and Wopmack (1995) find that prices fall about 7 percent following announcement of dividend omissions. Watts (1973) observed that initiating a dividend increases the share price and cutting a dividend generally leads to a price decline, thus demonstrating the signaling effect of dividend policy.

2.2.5. Clientele Effect Theory

This theory was advanced by Pettit in 1977. It states that different groups or clienteles of stakeholders have different preference for dividend depending on their level of income. Low income earners prefer high dividend to meet their consumption needs while high income earners prefer low dividend to avoid payment of taxes. Therefore when a firm sets a dividend policy, there will be shifting of investors into and out of the firm until equilibrium position is reached.

Pettit (1977) tested for dividend clientele effects by examining the portfolio positions of approximately 914 individual accounts handled by a large retail brokerage house between 1964 and 1910. He argues that stocks with low dividend yields will be preferred by investors with high income. The retired individuals generally prefer current incomes. They may want the firm to pay out a high percentage of earnings. Such investors are often in a low or even zero tax brackets, so taxes are of no concern. On the other hand, stockholders in the peak earning years might prefer reinvestment, because they have less need for current investment income and would simply reinvest any dividends received after first paying income taxes on dividend income.

2.3 Factors Influencing Financial Performance

2.3.1 Corporate Governance

There is a positive relationship between corporate governance and the value of the firm in developing for developed markets. Berle and Means (1932) argue that an agency cost arises when managers pursue their own interests for private benefits as opposed to creating value for shareholders. The asymmetric information and moral hazard prevent investors in the developing market from acquiring benefit from the firm, as the shareholders have insufficient information to make a financial decision and evaluate the actions of managers in these markets.

Black (2001) suggests that the external corporate governance mechanism is weak in developing markets and the irrational acts of managers are not controlled. By improving the external corporate governance mechanism, the value of a firm can be improved to a higher degree in the developing market compared to the developed market. The minority shareholders in the developing market have no representation on the board and cannot play any role in the financial affairs of the firm. Good corporate governance puts emphasis on positive relationship between principal and agent which leads to value creation for shareholders. Managers are forced to work for the benefit of shareholders and are restricted from empire building.

2.3.2 Leverage

Debt can be used as a powerful device to improve the value of a firm (Jensen and Meckling, 1976) . Heinrich (2002) argues that in highly indebted economies, incentives of managers can be aligned to benefits derived by the creditors. In this way, agency cost can be reduced and value can be created for the shareholders as both instruments encourage each others' effect. Debt also has advantages such as disciplining the management and solving the free cash flow problem. In case of indebted firms, most of the free cash flow is used to make debt repayments. Higher debt disciplines the management, but at the cost of excessive risk taking. A higher debt level is also preferred in the developing market because the conflicts between creditors and management in concentrated shareholding are governed properly compared to the conflicts between shareholders and management (Berglof, 1997).

2.3.3 Cash on Hand

According to Jensen and Meckling (1976) managers have a personal interest in the retention of excessive cash returns which in turns causes a conflict of interest between the managers and the shareholders. Gibbs (1993) argues that managers tend to invest the excessive cash reserves in

below the market yield investments, such as diversification, poor expansion options and in other low yielding investments. According to Gibbs (1993) excessive cash holdings cannot be directly observed, instead they can be seen through low levels of leverage, stable cash flow, high diversification and limited positive Net Present Value (NPV) investment opportunities.

Jensen (1986) claims that excessive cash holdings above positive NPV opportunities are being invested in ventures that are meant to increase sales growth that are not necessarily profitable in nature. However, it is also in manager's interests to minimize the risk of bankruptcy. Substantial external financing can be both costly and in recessions or liquidity crises, difficult to come by. Management can avoid these costs if the company sustains only enough cash on hand to finance value maximizing investment opportunities According to Williamson (1998), large cash reserves benefit managers as they provide solid internal financing which is cheaper to external. Consequently high level of free cash flow implies low leverage and less likelihood for bankruptcy to take place.

2.3.4 Operating Performance

Fundamental economic theory states that firms that are incurring losses exit the market and the ones that are profitable stay in. Silverman, Nickerson and Freeman (1997) suggest that firm's performance correlated with its survival especially during tough economic times. Moreover, longer business survival tends to be positively related to greater sales. This was observed in larger companies which were the older ones and also had lower exit rates. Jovanovic (1982) finds that the entry size of the firms may be small but if the firm is successful it will eventually expand. This implies longer business survival is directly linked to greater operating performance and size. Having a competitive advantage is especially favourable in tough economic times to help boost the company's revenue and sustain growth. In particular, strong research and

development, advertising and marketing gives the companies the ability to innovate and engage in price leading strategies which in turn help push its operations through the recessionary periods. Opler and Titman (1993) find the share price reactions of low and high leverage companies during the recession periods depend on research and development intensity, amongst other factors. Firms with specialised products are more likely to be sensitive to the financial distress due to the customer lost sales in comparison to other firms.

2.3.5 Growth

According to Jovanovic (1982), firms that grow experience increasing profitability while those making losses contract and eventually exit the market. He argues that the size of the firm at each certain point in time is a distinct statistical predictor of its business survival. Bogner et al (1996) finds that firms do in fact adjust the sizes to different economic conditions. However, if there are costs associated with the actual adjustment, the firms may find it optimal to partially adjust and then catch on gradually at a later stage to the initially desired size. Frank (1988) suggests that the company's entry size is a good indication on the future success. Frank (1988) finds that recent growth is a good signal of the firm's performance expectations and hence implies a positive correlation between firm's survival and recent growth.

2.3.6 Size

Beaver (1966) studied bankruptcy models and indicated that larger companies are more solvent than the smaller ones even if the numerical values of their financial ratios are the same. This implies that the probability of failure is more likely to strike a smaller company in recessionary times. According to Baumol (1962), smaller companies tend to experience higher volatility in the rate of return than their larger counterparts. This implies uneven comparison and unfair predictions or results that are generated with the same financial ratios.

Opler and Titman (1993) argue that lost sales in times of financial distress are not only a function of leverage but also a function of the firm's size. For instance, small companies tend to have higher volatility of earnings in the sense that they are more affected by the competitors and customer driven losses in sales. According to Titman and Wessel (1988), larger firms tend to be disciplined by manager driven reduction in sales and could well benefit from an event of financial distress caused by the economic contraction.

2.3.7 Tangibility

According to Jensen and Meckling (1976), tangible assets provide collateral to lenders in times of financial distress and assist as security against debt. Tangible assets also represent protection to lenders against moral hazard resulted by the shareholder creditor conflict Therefore firms with higher level of tangible assets are more likely to employ higher levels of leverage. According to Titman and Wessel (1988), there is a strong negative relation between a firm's operating performance and tangibility but a positive association with long-term debt. For instance, firms with relatively risky, intangible assets tend to borrow less than firms with safe, tangible assets.

According to Bradley, Jarrell and Kim (1984), companies that secure their long-term debt with tangible assets are in fact able to borrow at much lower interest rates that those with intangible assets. In the event of financial distress, intangible assets would rather be undervalued and are likely to sustain damages.

2.4 Factors Influencing Dividend Policy

Firms should pay cash dividends if they are unable to invest in zero or positive net present value. Cash dividends provide information about the fundamental economic health of the company. According to Robins and Stobaugh (1973), the following factors influence dividend policy.

2.4.1 Investment Opportunities

Firms facing many investment opportunities are likely to undertake investments and stockholders are unlikely to be too concerned with managers investing to expand the firm. Firms in mature industries with limited investment opportunities are likely to pay out a high percentage of earnings as cash dividends.

2.4.2 Liquidity

Dividends are paid with cash. Firms with large free cash flows are more likely to pay cash dividends than firms with low cash flows. Profitable firms and firms in mature industries are most likely to have the cash necessary to make dividend payments.

2.4.3 Cash Flow Stability

The more stable the firm's cash flow, the better it is able to maintain a 'high' dividend relative to its expected per share earnings. Other things equal, high dividend payout ratios are likely to be found in stable industries with predictable cash flows.

2.4.4 Corporate Control

Owner managers wishing to regain control of the company are unlikely to pay high cash dividend. Instead, the earnings will be reinvested in the firm and used to support additional debt financing.

2.4.5 Taxes

Firms controlled by individuals facing high marginal tax rates are likely to use stock repurchases instead of dividends as a way of distributing cash to shareholders.

2.4.6 Contractual Restrictions

Creditors may restrict cash dividend payments through debt covenants in order to protect their creditor status. These covenants may appear as direct restrictions on cash dividend payment or

indirect restrictions operating through minimum net working capital requirements and minimum level of retained earnings.

2.4.7 Anti-Takeover Strategies

Firms with large free cash-flows may adopt high payout strategies to discourage takeover attempts. By distributing cash to shareholders, management keeps existing shareholders happy and reduces the ability of the competing management control teams to finance the company's takeover with the company's own cash balances.

2.4.8 Other Restrictions

These include capital impairments restrictions which prohibit companies from paying dividends out of legally defined capital. This varies from country to country, it may be the par value of company's common stock or may include other capital accounts such as retained earnings restrictions. Earning restrictions prohibit cash dividend unless the firm has accumulated a defined level retained earnings. This restriction protects the creditors from stockholders paying themselves cash dividend's before the company has generated any earnings. Insolvency restriction prohibits companies with liabilities greater than assets from paying dividends. These restrictions, like others, are defined by financial statement values. It is important to have a generally accepted set of accounting rules for enforcing these laws (1995).

2.5 Empirical Review

Some studies have found that firm value is not influenced by the increase or decrease in dividend payouts, whereas some studies found that dividend payouts affect firm value. A survey was conducted by Farrelly, Baker and Edelman (1985) in which they found that according to the view of managers there is an optimal level of dividend payouts, and firm value is influenced by

dividend payouts. The same results were found by Baker and Powell (1999) in a survey that firm value and wealth of shareholder is affected by dividend policy.

Pandy (2001) investigated the dividend payment behaviour in Malaysia and results showed that dividend payment ratios among different industries are different in Malaysia. The result also indicated that profitability, firm's size and investment opportunities affect dividend payments. These results suggested that larger and more profitable companies' opportunities pay fewer dividends. The results also suggested that corporations that never pay dividends are more profitable. Majority of the investors in NSE are individuals without any investment knowledge and whose investment plans are driven by excitement, emotion and psychological reasons, while in the developed markets, the main investors are institutions and individuals who are highly knowledgeable on investment matters or rely heavily on investment advice when making decisions.

Nissim and Ziv (2001) found that dividends increases and decreases are not symmetric. Dividend increases are associated with future profitability for at least two years after the dividend change, whereas dividend decreases are not related to future profitability, after controlling for current and expected profitable. They propose that this lack of association can be explained by accounting conservatism. They therefore conclude that there is a positive relationship between dividend payout and future earnings.

A study by Arnott and Asness (2003) revealed that future earnings growth is associated with high rather than low dividend payout. They concluded that historical evidence strongly suggests that expected future earnings growth is fastest when current payout ratios are high and slowest when payout ratios are low. Their evidence contradicted the view that substantial reinvestment of retained earnings would fuel faster future earnings growth.

A study by Dhanani (2005) revealed that dividend policy is important in maximizing shareholder value. A firm's dividend policy can influence one or more of imperfections in the real world such as information problems between managers and shareholders, taxes and transaction costs and in turn enhance the firms value to shareholders.

Njoroge (2000) studied listed companies from 1991 to 1998 and used linear regression technique with dividend payout as the dependent variable and return on equity, return on assets, growth in assets, as independent variables. The researcher found out that neither return on assets, return on equity nor growth in assets were significant in determining dividend payout ratios.

Bitok (2004) studied the effect of dividend policy on the value of the firms quoted at the NSE. The population of interest in the study consisted of all the firms quoted at the NSE for a period of 6 years from 1998 to 2003. The study was facilitated by use of secondary data. The data collected was analyzed using simple linear regression and correlation analysis. The researcher found out that, on average, there was a significant positive relationship between dividend policy and the value of the firm.

Muriuki (2010) examined the relationship between dividend policies and share prices for companies quoted at the NSE. He used all 47 listed firms from 2005 to 2009 with the help of multivariate regression model and concluded that there is a negative relationship between share price and usage of constant payout ratio. Usage of constant amount per share had appositive relationship with share prices.

Siero (2006) did an exploratory study at the NSE on determining the probability of a company paying dividends. He observed that dividend payout ratio, dividend yield, price earnings ratio and book value are the most significant factors in discriminating the dividend paying firms form

non- payers at the NSE. He concluded that financial ratios are useful in estimating the likelihood of firm paying dividends

Njuru (2007) did a study to test for ‘under reaction’ to stock dividend announcement at Nairobi Securities Exchange (NSE). The results showed evidence in favour of existence of under reaction to stock dividend at the NSE for the period of 1999 to 2005.

2.6 Summary of Literature Review

Studies done by Arnolt and Asness (2003), Dhanani (2005), Bitok (2004) show a positive relationship between the dividend payout and stock price reaction. Some of the researchers attributed this to dividends being used as a signaling mechanism in anticipation of future earnings. Investors believe that managers who are better informed about the firm only increase dividend payout because managers forecast increase profitability. The declaration of dividends is seen as a signal of positive returns into the future and investors can use this to make their investment decisions.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the methods that were used by the study to achieve its set objectives. It starts with the research design, a description of the population and sample, data collection and analysis.

3.2 Research Design

This study used a correlation research design. According to Mugenda & Mugenda (2003), the correlation design describes in quantitative terms the degree to which variables are related. It involves collecting data in order to determine whether and to what degree a relationship exists between two or more quantifiable variables. It allows one to analyze how several variables either singly or in combination might affect a particular phenomenon being studied.

3.3 Population

The target population of this study was all the firms quoted at the Nairobi Securities Exchange. There are 60 listed firms at the NSE (Appendix III). This study was limited to quote companies due to availability of data. The companies' annual reports were readily available at the Nairobi Securities Exchange.

3.4 Sample

The sample was selected from all quoted companies that have maintained a positive average Earnings Per Share (EPS) and have been consistently quoted at the NSE for a period of 6 years from 2006 to 2011. Profitability of a company has been one of the main criteria used by investors in assessing the worth of an investment, hence the emphasis on companies' decision on whether or not to distribute profits is mainly relevant to profitable companies.

3.5 Data Collection

The study used secondary data. This included accounting data, dividend payout ratio of companies quoted at NSE on a yearly basis from NSE, business magazines, various journals and companies annual reports.

3.6. Data Analysis

The study used a multivariate regression model to determine the relationship between the dependent and the independent variables. Financial performance of firms is affected by various factors. This study considered four major factors that affect performance. These factors include; dividend payout ratio, total assets, firm size and leverage The dependent variable in this study is financial performance while the independent variables are dividend payout ratio, firm size, total assets and leverage.

3.6.1 Analytical Model

The multivariate regression model used in the study was of the form:-

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_2 X_3 + \beta_4 X_4 + Є$$

Where

Y = Financial performance measured by return on assets.

X_1 = Dividend Payout Ratio given by dividend per share divided by earnings per share

X_2 = Firm Size measured by natural logarithm of market capitalisation

X_3 = Total Assets measured by natural logarithm of total assets of the firm

X_4=Leverage given by total debt divided by shareholders equity

β_i = Coefficient of predictor variables

α=Intercept or Regression constant

ϵ = Error Term

ANOVA (Analysis of Variance) was used to test the significance of the model. R^2 was used to indicate the measure of variability in the performance that is accounted for by the predictor variables. The adjusted R squared indicates the variance that would be obtained if the population was used rather than the sample.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1: Introduction

This chapter gives the study analysis that includes results, findings and interpretation from the analyzed data. It uses correlation and regression based on the secondary data obtained from the NSE. It uses tables generated from SPSS output to display the results.

4.2 Regression Results

The study used correlation and multiple regression to establish the relationship between dividend payout ratio and financial performance of firms listed at the NSE for the period 2006-2011.

4.2.1 Agricultural Sector

This section presents correlation and regression analysis on the agricultural sector in the different companies that were identified for the study. These two analyses have been presented on different tables covering all the companies for the study.

4.2.1.1 Correlation in the Agricultural Sector

Table 4.1: Correlation in the Agricultural Sector

Name				
Kakuzi Limited	**Correlation**	**DPR**	**Performance**	
	DPR	Pearson correlation Sig.(2-tailed) N	1 6	0.706 0.002 6
Rea Vipingo	DPR	Pearson correlation Sig.(2-tailed) N	1 6	0.867 0.024 6
Sasini Tea and Coffee	DPR	Pearson correlation Sig.(2-tailed) N	1 6	0.713 0.000 6

***Source*:** Research findings

Correlation coefficient determines whether the correlation is positive or negative. The magnitude of the correlation coefficient determines the strength of the correlation. When correlation coefficient is between 0 and 0.3, that is, ($0<r<0.3$) the correlation is said to be weak, when correlation is between 0.3 and 0.7, ($0.3<r<0.7$), it is said to be moderate correlation and when correlation is between 0.7 and 1.0, ($0.7<r<1.0$), the correlation is strong. In this analysis, correlation has been done to determine the relationship between dividend payout ratio and the performance in which performance has been measured in terms of the return on assets.

The relationship between dividend pay-out ratio and performance of Kakuzi Limited using the Pearson correlation indicates that there is a strong positive correlation ($r=0.706>0.7$) as shown in table 4.1. This correlation is significant at 0.05 level of significance given that p-value (0.002) is less than the level of significance testing at 5% significance level. Similarly, there is a strong positive correlation between performance of Rea Vipingo and DPR ($r=0.867$). The correlation is significant at 0.05 given that p-value (0.024) is less than the level of significance testing at 5% significance level. Finally there is also a strong positive correlation between performance and dividend payout ratio of Sasini tea and coffee limited $r=0.713$. The correlation is significant at 0.05 level of significance given the p-value (0.000) is less than the level of significance testing at 5% significance level.

4.2.1. Regression in the Agricultural Sector

Table 4.2: Regression in Kakuzi

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.185	.234		.787	0.005
	DPS/ EPS	0.748	.883	.529	.847	0.023
	Market capitalization	0.9625	.000	.951	1.581	0.019
	Total assets	0.7069	.000	.988	1.793	0.024
	Total debts/Shareholders fund	0.087	.192	.231	.455	0.028

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	.009	4	.002	1.812	.001
	Residual	.001	1	.001		
	Total	.010	5			

MODEL SUMMARY

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.937[a]	.879	.804	.0355110284

a. Dependent Variable: ROA

b. Predictors: (Constant), Total debts/shareholders fund, Total assets, Market capitalization, DPS/EPS.

Source: Research findings

Where:

Dependent variable is the ROA- which is the Return on Asset

Predictors: DPS (Dividend per shares)/ EPS (Earning per shares)

Market capitalization

Total assets

Total debts/Shareholders fund

The unstandardized coefficient B in table 4.2 shows the values of numbers in the multiple regression model obtained is given by:

(ROA) = 0.185+0.748(DPS/EPS) + 0.9625Market Capitalization + 0.7069Total assets +.0.87(Total assets/Shareholders fund).

This indicates that DPS/EPS, Market capitalization, total assets and total debts/shareholders fund have a direct relationship with performance such that an increase in DPS/EPS, Market capitalization, total assets and total debts/shareholders fund by one unit leads to an increase in performance of Kakuzi by 0.748, 0.9625, 0.7069 and 0.87 respectively. The coefficients of the regression are significant at 5% significance level given that the (p-value=0.005) is less than 0.05 level of significance, this indicates that the variables are strong predictors of performance. On the ANOVA, the relationship between the predictor variables and performance is significant at 5% significance level since p-value (0.001) is less than 0.05. This shows that the relationship between the variables is significant. The R^2 indicates the measure of variability in the performance that is accounted for by the predictor variables. From the results R^2 =0.879 indicates that 87.9% of performance of Kakuzi is accounted for by DPS/EPS, Market capitalization, total assets and total debts/shareholders fund. An adjusted R squared (0.804) indicates that if the

population was used rather than a sample, the study result would be 19.6% less variance in the performance of Kakuzi limited.

Table 4.3: Regression in Rea Vipingo

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.495	.522		1	0.005
	DPS/ EPS	0.464	.283	-.786		0.043
	Market capitalization	0.948	.000	-.197		0.039
	Total assets	0.526	.000	-.141		0.024
	Total debts/Shareholders fund	0.092	.309	.143		0.028

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.078	4	.020	1.045	.017
	Residual	.019	1	.019		
	Total	.097	5			

MODEL SUMMARY

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.898[a]	.807	.835	.1370099748

a. Dependent Variable: ROA

b. Predictors: (Constant), Total debts/shareholders fund, Total assets, Market capitalization, DPS/EPS.

Source: Research findings

The unstandardized coefficient B in table 4.3 shows the values of numbers in the multiple regression model obtained is given by:

(ROA) = 0.495 +0.464 DPS/EPS + 0.948Market capitalization + 0.526Total assets +.0.092Total debts/shareholders. This indicates that DPS/EPS, Market capitalization, total assets and total

debts/shareholders fund have a direct relationship with performance such that an increase in DPS/EPS, Market capitalization, total assets and total debts/shareholders fund by one unit leads to an increase in performance of Rea Vipingo by 0.464, 0.948, 0.526 and 0.092 respectively. The coefficients are significant at 5% significance level as indicated by the p-values less than 0.05level of significance. On the ANOVA, the regression linearity of the model is significant since p-value (0.017) is less than 0.05 level of significance . The R^2 indicates the measure of variability in the performance that is accounted for by the predictor variables. From the results R^2 =0.807 indicates that 80.7% of performance of Rea Vipingo is accounted for by DPS/EPS, Market capitalization, total assets and total debts/shareholders fund. An adjusted R squared (0.835) indicates that if the if the population was used rather than a sample, the study result would be 16.5% less variance in the performance.

Table 4.4: Regression in Sasini Ltd

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.088	.029		1.006	.004
	DPS/ EPS	0.802	.133	2.294	2.033	.005
	Market capitalization	1.395	.000	.204	1.552	.044
	Total assets	3.745	.000	1.705	2.949	.011
	Total debts/Shareholders fund	2.024	.395	1.635	1.123	.023

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.013	4	.003	16.096	.005
	Residual	.000	1	.000		
	Total	.014	5			

MODEL SUMMARY

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.992[a]	.985	.924	.0144739725

a. Dependent Variable: ROA

b. Predictors: (Constant), Total debts/shareholders fund, Total assets, Market capitalization, DPS/EPS

Source: Research findings

Table 4.4 shows the coefficients of the multiple regression model obtained given by:

ROA = 0.088 +0.802DPS/EPS +1.395Market Capitalization + 3.745Total assets + 2.024Total debts/shareholders. This indicates that DPS/EPS, Market capitalization, total assets and total debts/shareholders fund have a direct relationship with performance such that an increase in DPS/EPS, Market capitalization, total assets and total debts/shareholders fund by one unit leads

to an increase in performance of Sasini Tea by 0.802, 1.395, 3.745 and 2.024 respectively. The p-values of the coefficients are less than 0.05 indicating that the coefficients are significant at 0.05 level of significance. The ANOVA indicates that the relationship between performance and the predictor variables is significant (p-value=0.005) is less than 0.05 level of significance testing at 5% significance level. R^2 which is 0.985 indicates that 98.5% of the variation in the performance of Sasini Tea is accounted for by DPS/EPS, Market capitalization, total assets and total debts/shareholders fund. The adjusted R squared (0.924) indicates that if the population was used rather than a sample, the study result would be 7.6% less variance in the performance.

4.2.2 Commercial and Services Sector

4.2.2.1 Correlation in the Commercial and Services Sector

Table 4.5: Correlation in the Commercial and Services Sector

Name				
	Correlation		DPR	Performance
Car and General Limited	DPR	Pearson correlation Sig.(2-tailed) N	1 6	0.754 0.003 6
CMC holdings Limited	DPR	Pearson correlation Sig.(2-tailed) N	1 6	0.726 0.026 6
Kenya airways limited	DPR	Pearson correlation Sig.(2-tailed) N	1 6	0.794 0.004 6
Nation Media Group	DPR	Pearson correlation Sig.(2-tailed) N	1 6	0.821 0.021 6
TPS	DPR	Pearson correlation Sig.(2-tailed) N	1 6	0.712 0.004 6

Source: Research findings

The relationship in the financial performance and dividend payout ratio of Car and General Limited using the Pearson correlations in table 4.5 indicates that there is a strong positive correlation (r=0.754>0.7). In addition it indicates that the correlation is significant at 0.05 level

of significance given the p-value (0.003) is less than 0.05. On the same line, there is a strong positive correlation between performance and dividend payout ratio of CMC holdings limited (r=0.726). This correlation is significant at 0.05 level of significance given p-value=0.026 which is less than 0.05 level of significance. The correlation between performance and dividend payout ratio at Kenya airways limited is a strong positive correlation (r=0.794). This correlation is significant at 5% significance level given p-value (0.004) is less than 0.05 level of significance. Using Pearson correlation, the results in table 4.5 indicates there is a strong positive correlation between performance of Nation Media group and dividend payout ratio (r=0.821). This correlation is significant at 0.05 level of significance (p-value 0.021) is less than 0.05. Finally, the results indicate also that there is a strong correlation between performance and dividend payout ratio (r=0.712) of TPS which is significant at 5% significance level given p-value (0.004) is less than 0.05 level of significance.

4.2.2.2 Regression in the Commercial and Services Sector

Table 4.6: Regression in Car and General Limited

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.741	.139		.841	.005
	DPS/ EPS	0.297	1.201	.233	.247	.046
	Market capitalization	0.117	.000	.033	.040	.000
	Total assets	3.456	.000	.094	.800	.000
	Total debts/Shareholders fund	0.044	.083	.344	.538	.006

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.001	4	.000	1.090	.008
	Residual	.000	1	.000		
	Total	.002	5			

MODEL SUMMARY

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.902[a]	.813	.767	.0183793505

a. Dependent Variable: ROA

b. Predictors: (Constant), Total debts/shareholders fund, Total assets, Market capitalization, DPS/EPS

Source: Research findings

Table 4.6 shows the coefficients of the multiple regression model obtained given by:

ROA = 3.741 +0.297DPS/EPS +0.117Market Capitalization + 3.456Total assets + 0.044Total debts/shareholders. This indicates that DPS/EPS, Market capitalization, total assets and total debts/shareholders fund have a direct relationship with performance such that an increase in DPS/EPS, Market capitalization, total assets and total debts/shareholders fund by one unit leads to an increase in performance of Car and General Limited by 3.741, 0.297, 0.117, 3.456 and 0.044 respectively. The p-values of the coefficients are less than 0.05 indicating that the coefficients are significant at 5% significance level. The ANOVA indicates that the relationship

between performance and the predictor variables is significant at 5% significance level (p-value=0.008) is less than 0.05 level of significance. R^2 which is 0.813 indicates that 81.3% of the variation in the performance of Car and General Limited is accounted for by DPS/EPS, Market capitalization, total assets and total debts/shareholders fund. The adjusted R squared (0.767) indicates that if the population was used rather than a sample, the study result would be 23.3% less variance in the performance.

Table 4.7: Regression in CMC Holdings Limited

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.030	.133		.227	.048
	DPS/ EPS	0.609	.827	.698	.737	.016
	Market capitalization	0.629	.000	.201	.154	.003
	Total assets	0.744	.000	.601	.747	.002
	Total debts/Shareholders fund	0.394	.542	.668	.726	.000

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.044	4	.011	.587	.038
	Residual	.019	1	.019		
	Total	.062	5			

MODEL SUMMARY

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.861	.741	.704	.1361966575

a. Dependent Variable: ROA

b. Predictors: (Constant), Total debts/shareholders fund, Total assets, Market capitalization, DPS/EPS

Source: Research findings

The unstandardized coefficient B in table 4.7 shows the values of numbers in the multiple regression models obtained is given by:

(ROA) = 0.030 +0.609 DPS/EPS + 0.629Market capitalization + 0.744Total assets +0.394Total debts/shareholders. This indicates that DPS/EPS, Market capitalization, total assets and total debts/shareholders fund have a direct relationship with performance such that an increase in

DPS/EPS, Market capitalization, total assets and total debts/shareholders fund by one unit leads to an increase in performance of CMC holding and Limited by 0.609, 0.629, 0.744 and 0.394 respectively. The coefficients are significant at 5% significance level as indicated by the p-values less than 0.05. ANOVA indicates that the relationship between the predictor variables and performance is significant at 5% significance level since p-value (0.038) is less than 0.05. The R^2 indicates the measure of variability in the performance that is accounted for by the predictor variables. From the results R^2 =0.741 indicates that 74.1% of performance of CMC holding and limited is accounted for by DPS/EPS, Market capitalization, total assets and total debts/shareholders fund. An adjusted R squared (0.704) indicates that if the population was used rather than a sample, the study result would be 29.6% less variance in the performance of CMC holding and limited.

Table 4.8: Regression in Kenya Airways Limited

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.105	.053		.067	.035
	DPS/ EPS	0.045	.014	.431	.207	.045
	Market capitalization	0.286	.000	.756	.626	.040
	Total debts/Shareholders fund	0.201	.045	.598	.420	.048

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.017	3	.006	18.159	.043
	Residual	.001	2	.000		
	Total	.017	5			

MODEL SUMMARY

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.982[a]	.965	.911	.0175718424

a. Dependent Variable: ROA

b. Predictors: (Constant), Total debts/shareholders fund, Market capitalization, DPS/EPS

c. Excluded variable: Total assets; The variable is excluded since it is insignificant in the analysis.

Source: Research findings

The unstandardized coefficient B in table 4.8 indicates the values of numbers in the multiple regression model obtained is given by: (ROA) = 1.105 +0.045 DPS/EPS + 0.286Market capitalization + 0.201Total debts/shareholders. This indicates that DPS/EPS, Market capitalization and total debts/shareholders fund have a direct relationship with performance such that an increase in DPS/EPS, Market capitalization and total debts/shareholders fund by one unit leads to an increase in performance of Kenya Airways limited by 0.045, 0.286 and 0.201 respectively. The coefficients are significant at 5% significance level as indicated by the p-values less than 0.05. On the ANOVA indicates that the relationship between the predictor variables and financial performance of Kenya airways limited is significant at 5% significance level since p-

value (0.043) is less than 0.05.The R^2 indicates the measure of variability in the performance that is accounted for by the predictor variables. From the results R^2 =0.965 indicates that 96.5% of performance of Kenya Airways Limited is accounted for by DPS/EPS, Market capitalization and total debts/shareholders fund. An adjusted R squared (0.911) indicates that if the population was used rather than a sample, the study result would be 8.9% less variance in the performance of Kenya Airways Limited.

Table 4.9: Regression in Nation Media Group

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.506	.139		1.834	.018
	DPS/ EPS	0.205	.079	1.325	.598	.034
	Market capitalization	0.578	.000	.739	.834	.018
	Total assets	0.319	.000	.031	.143	.010
	Total debts/Shareholders fund	0.057	.303	.067	.186	.033

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.009	4	.002	6.446	.002
	Residual	.000	1	.000		
	Total	.010	5			

MODEL SUMMARY

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.981[a]	.963	.813	.0191825146

a. Dependent Variable: ROA

b. Predictors: (Constant), Total debts/shareholders fund, Total assets, Market capitalization, DPS/EPS

Source: Research findings

The unstandardized coefficient B in table 4.9 shows the values of numbers in the multiple regression model obtained is given by: (ROA) = 0.506 +0.205 DPS/EPS + 0.578Market capitalization + 0.319Total assets +.0.057Total debts/shareholders. This indicates that DPS/EPS, Market capitalization, total assets and total debts/shareholders fund have a direct relationship with performance such that an increase in DPS/EPS, Market capitalization, total assets and total debts/shareholders fund by one unit leads to an increase in performance of Nation Media group by 0.205, 0.578, 0.319 and 0.057 respectively. The coefficients are significant at 5% significance level as indicated by the p-values less than 0.05 level of significance. On the ANOVA, the relationship between predictor variables (DPS/EPS, Market capitalization, Total assets and total debts/shareholders fund) and financial performance is significant at 5% significance level since p-value (0.017) is less than 0.05 level of significance. The R^2 indicates the measure of variability in the performance that is accounted for by the predictor variables. From the results R^2 =0.963 indicates that 96.3% of performance of Nation Media Group is accounted for by DPS/EPS, Market capitalization, total assets and total debts/shareholders fund. An adjusted R squared (0.813) indicates that if the population was used rather than a sample, the study result would be 16.9% less variance in the performance of Nation Media Group.

Table 4.10: Regression in TPS

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.082	.001		0.105	.009
	DPS/ EPS	0.102	.001	.898	0.637	.008
	Market capitalization	0.409	.000	.065	0.993	.006
	Total assets	0.109	.000	.350	0.932	.026
	Total debts/Shareholders fund	0.123	.003	.609	0.068	.014

ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.001	4	.000	2342.89	.015[b]
	Residual	.000	1	.000		
	Total	.001	5			

MODEL SUMMARY

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	1.000[a]	1.000	.999	.0002838752

a. Dependent Variable: ROA

b. Predictors: (Constant), Total debts/shareholders fund, Total assets, Market capitalization, DPS/EPS

Source: Research findings

Table 4.10 indicates the findings of regression analysis that gives the regression model; ROA = 0.082+ 0.102DPS/EPS +0.409Market capitalization +0.109Total assets + 0.123Total debts/shareholders. This indicates that DPS/EPS, Market capitalization, total assets and total debts/shareholders fund have a direct relationship with performance such that an increase in DPS/EPS, Market capitalization, total assets and total debts/shareholders fund by one unit leads to an increase in performance of TPS by 0.102, 0.409, 0.109 and 0.123 respectively. The regression coefficients obtained are significant at 0.05 level of significance given their p-values

less than 0.05. The ANOVA indicates that the relationship between predictors variables and financial performance of TPS is significant at 5% significance level given (p-value=0.015) is less than 0.05 level of significance. R^2 (1.00) indicates that 100% of the variability in the performance of TPS is accounted for by the predictor variables. The adjusted R squared (0.999) indicates that 9 if the population was used rather than a sample, the study result would be 0.1% less variance in the performance.

4.2.3 Financial and Investment Sector

4.2.3.1 Correlation in the Financial and Investment Sector

Table 4.11: Correlation in the Financial and Investment Sector

Name				
	Correlation		DPR	Performance
Barclays Bank	DPR	Pearson correlation	1	0.774
		Sig.(2-tailed)		0.023
		N	6	6
Diamond Trust Bank	DPR	Pearson correlation	1	0.963
		Sig.(2-tailed)		0.002
		N	6	6
Housing Finance	DPR	Pearson correlation	1	0.794
		Sig.(2-tailed)		0.024
		N	6	6
Jubilee Insurance	DPR	Pearson correlation	1	0.939
		Sig.(2-tailed)		0.005
		N	6	6
Pan Africa Insurance	DPR	Pearson correlation	1	0.883
		Sig.(2-tailed)		0.043
		N	6	6

Source: Research findings

Table 4.11 indicates that there is a strong positive relationship between the performance and dividend payout ratio of Barclays bank given r=0.774. This relationship is significant at 0.05 level of significance given the p-value (0.023) is less than the level of significance testing at 5% significance level. Similarly, there is a strong positive relationship between performance and

dividend payout ratio of Diamond trust bank with r=0.963. The relationship is significant at 5% significance level given that p-value=0.002 is less than 0.05. There is also a strong positive correlation between performance and dividend payout ratio at both Housing finance corporation and jubilee insurance with r=0.794 and 0.939 respectively. The correlations are significant at 0.05 level of significance given their p-values are less than the level of significance. Similarly, there is a strong positive correlation between performance and dividend payout ratio at Pan Africa insurance r=0.883. The correlation is significant at 5% significance level given that p-value (0.043) is less than 0.05.

4.2.3.2 Regression in the Financial and Investment Sector

Table 4.12: Barclays Bank Limited

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.335	.250		1.338	.033
	DPS/ EPS	.056	.065	.511	.872	.042
	Market capitalization	.013	.000	.203	.284	.014
	Total assets	.010	.000	.179	.266	.018

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.002	3	.001	.530	.005
	Residual	.002	2	.001		
	Total	.004	5			

MODEL SUMMARY

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.666[a]	.443	.392	.0351073973

a. Dependent Variable: ROA

b. Predictors: (Constant), Total assets, Market capitalization, DPS/EPS

c. Excluded variable: Total debts/shareholders fund; the variable is excluded since it is insignificant in the analysis

Source: Research findings

The regression coefficients obtained in table 4.12 are given in the model; ROA = 0.335 + 0.056DPS/EPS + 0.013Market capitalization +0.010Total assets. This shows that the relationship

between DPS/EPS, Market capitalization and Total assets and performance of Barclays Bank is a direct relationship and an increase in one unit of DPS/EPS, Market capitalization and Total assets results to an increase in performance of Barclays bank by 0.056, 0.013 and 0.010 respectively. The regression coefficients are significant at 5% significance level as indicated by the p-values that are less than 0.05. The ANOVA indicates that the relationship between predictor variables (DPS/EPS, Market capitalization and Total assets) and financial performance of Barclays is significant at 5% significance level since p-value $(0.005)^{)}$ is less than 0.05 level of significance. The R^2 which is 0.443 indicates 44.3% of the variation in the financial performance of Barclays is accounted for by the predictor variable. The adjusted R^2 (0.392) indicates that if the population was used rather than a sample, the study result would be 60.8% less variance in the performance.

Table 4.13: Diamond Trust Bank

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.377	.071		.344	.033
	DPS/ EPS	.675	.160	.490	.225	.032
	Market capitalization	.326	.000	.082	.422	.014
	Total assets	624	.000	.511	.772	.018

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.008	3	.003	23.048	.042
	Residual	.000	2	.000		
	Total	.009	5			

MODEL SUMMARY

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.986[a]	.972	.930	.0109636282

a. Dependent Variable: ROA

b. Predictors: (Constant), Total assets, Market capitalization, DPS/EPS

c. Excluded variable: Total debts/shareholders fund. It is omitted since it has constant values all equal to zero.

Source: Research findings

The regression coefficients obtained in table 4.13 are given in the model; ROA = 0.377 + 0.675DPS/EPS +0.326Market capitalization + 0.624Total assets. The results indicated by the coefficients indicate that there is a direct relationship between predictor variables (DPS/EPS, Market capitalization and Total assets) and financial performance of Diamond trust bank. An increase in a unit of the predictor variables (DPS/EPS, Market capitalization and Total assets) leads to an increase in financial performance by 0.675, 0.326 and 0.624 respectively. The regression coefficients are significant at 0.05 level of significance given their p-values less than 0.05 at 5% significance level. The ANOVA indicates that the relationship between the predictor variables (DPS/EPS, Market capitalization and Total assets) and the financial performance is significant at 5% significance level since p-value (0.042) is less than 0.05. The R^2 which is 0.972

indicates 97.2% of the variation in the financial performance of Diamond trust is accounted for by DPS/EPS, Market capitalization and Total assets. The adjusted R^2 (0.930) indicates that if the population was used rather than a sample, the study result would be 7.0% less variance in the performance

Table 4.14: Housing Finance Company Limited

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.101	.025		4.065	.026
	DPS/ EPS	.108	.024	.605	4.422	.048
	Market capitalization	.031	.000	.343	2.589	.022
	Total debts/shareholders fund	.011	.021	.957	7.243	.019

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.006	3	.002	23.237	.042
	Residual	.000	2	.000		
	Total	.006	5			

MODEL SUMMARY

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.986[a]	.972	.930	.0089419507

a. Dependent Variable: ROA

b. Predictors: (Constant), Total debts/shareholders fund, Market capitalization, DPS/EPS

c. Excluded variable: Total assets; the values are constants all equal to zero

Source: Research findings

The regression coefficients obtained in table 4.14 are given in the model; ROA = 0.101 + 0.108DPS/EPS +0.031Market capitalization + 0.011 Total debts/shareholders fund. The coefficients are positive indicating that there is a direct relationship between (DPS/EPS, Market capitalization and Total debts/shareholders fund) and financial performance of Housing finance company limited such that an increase in DPS/EPS, Market capitalization and Total debts/shareholders fund by one unit leads to an increase in financial performance of Housing

finance company by 0.108, 0.031 and 0.011 respectively. The regression coefficients are significant at 0.05 level of significance given their p-values less than 0.05. The ANOVA indicates that the relationship between predictor variables (DPS/EPS, Market capitalization and Total debts/shareholders fund) and financial performance is significant since p-value (0.042) is less than 0.05 level of significance testing at 5% significance level. The R^2 which is 0.972 indicates that 97.2% of the variation in the financial performance of Housing Finance Company limited is accounted for by DPS/EPS, Market capitalization and Total debts/shareholders fund. The adjusted R^2 (0.930) indicates that if the population was used rather than a sample, the study result would be 7.0% less variance in the performance.

Table 4.15: Jubilee Insurance Company Limited

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.307	.004		.306	.011
	DPS/ EPS	.072	.870	.090	.232	.034
	Market capitalization	.571	.000	.013	.142	.010
	Total assets	.245	.000	.125	.333	.026
	Total debts/Shareholders fund	.034	.104	.010	.321	.002

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.021	4	.005	4.289	.046
	Residual	.001	1	.001		
	Total	.022	5			

MODEL SUMMARY

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.972[a]	.945	.925	.0348747218

a. Dependent Variable: ROA

b. Predictors: (Constant), Total debts/shareholders fund, Total assets, Market capitalization, DPS/EPS

Source: Research findings

The regression coefficients obtained in table 4.15 are given in the model; ROA = 0.307 + .072DPS/EPS + 0.571Market capitalization + 0.245Total assets + 0.034Total debts/shareholders

fund. The coefficients indicate that there is a direct relationship between (DPS/EPS, Market capitalization, Total assets and Total debts/shareholders fund) and financial performance of Jubilee Insurance company limited such that an increase in DPS/EPS, Market capitalization, Total assets and Total debts/shareholders fund by one unit leads to an increase in financial performance of Jubilee insurance company by 0.072, 0.571, 0.245 and 0.034 respectively. The regression coefficients are significant at 5% significance level given their p-values less than 0.05. The ANOVA indicates that the relationship between predictor variables (DPS/EPS, Market capitalization, Total assets and Total debts/shareholders fund) and financial performance is significant at 5% significance level since p-value (0.046) is less than 0.05 level of significance. The R^2 which is 0.945 indicates that 94.5% of the variation in the financial performance of Jubilee Insurance Company limited is accounted for by DPS/EPS, Market capitalization, Total assets and Total debts/shareholders fund. The adjusted R^2 (0.925) indicates that if the population was used rather than a sample, the study result would be 7.5% less variance in the performance.

Table 4.16: Pan African Insurance Company Limited

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.757	.286		.646	.030
	DPS/ EPS	.201	.191	.367	.052	.044
	Market capitalization	0.845	.000	.682	.823	.019
	Total assets	0.776	.000	.334	.629	.011
	Total debts/Shareholders fund	.002	.004	.164	.474	.018

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.093	4	.023	3.542	.007
	Residual	.007	1	.007		
	Total	.100	5			

MODEL SUMMARY

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.966[a]	.934	.910	.0810193933

a. Dependent Variable: ROA

b. Predictors: (Constant), Total debts/shareholders fund, Total assets, Market capitalization, DPS/EPS

Source: Research findings

The regression coefficients obtained in table 4.16 are given in the model; ROA = 0.757 + 0.201DPS/EPS + 0.845Market capitalization + 0.776Total assets + 0.002Total assets/shareholders fund. The coefficients indicate that there is a direct relationship between predictor variables (DPS/EPS, Market capitalization, Total assets and Total debts/shareholders fund) and financial performance of Pan Africa Insurance company limited such that an increase in DPS/EPS, Market capitalization, Total assets and Total debts/shareholders fund by one unit

leads to an increase in financial performance of Pan Africa Insurance company limited by 0.201, 0.845, 0.776 and 0.002 respectively. The regression coefficients are significant at 5% significance level given their p-values less than 0.05. The ANOVA indicates that the relationship between predictor variables (DPS/EPS, Market capitalization, Total assets and Total debts/shareholders fund) and financial performance is significant at 5% significance level since p-value (0.007) is less than 0.05. The R^2 which is 0.934 indicates that 93.4% of the variation in the financial performance of Pan Africa Insurance Company limited is accounted for by DPS/EPS, Market capitalization, Total assets and Total debts/shareholders fund. The adjusted R^2 (0.910) indicates that if the population was used rather than a sample, the study result would be 9.0% less variance in the performance.

4.2.4: Industrial and Allied Sector

4.2.4.1: Correlation in the Industrial and Allied Sector

Table 4.17: Correlation in the Industrial and Allied Sector

Name				
	Correlation		DPR	Performance
Athi River Mining Limited	DPR	Pearson correlation Sig.(2-tailed) N	1 6	0.875 0.022 6
Bamburi Cement Company Limited	DPR	Pearson correlation Sig.(2-tailed) N	1 6	0.820 0.032 6
Boc Kenya Limited	DPR	Pearson correlation Sig.(2-tailed) N	1 6	0.694 0.014 6
East Africa Cables Limited	DPR	Pearson correlation Sig.(2-tailed) N	1 6	0.702 0.015 6
East Africa Breweries limited	DPR	Pearson correlation Sig.(2-tailed) N	1 6	0.783 0.023 6
KPLC	DPR	Pearson correlation Sig.(2-tailed) N	1 6	0.793 0.001 6
Total Kenya Limited	DPR	Pearson correlation Sig.(2-tailed) N	1 6	0.683 0.013 6

Source: Research findings

The relationship between performance and dividend payout ratio of Athi River Limited using the Pearson correlations as shown in table 4.17 indicates that there is a strong positive correlation ($r=0.875>0.7$). The correlation is significant at 0.05 level of significance ($p\text{-value}=0.022<0.05$). There is a strong positive correlation between performance and dividend payout ratio of Bamburi Cement Company Limited ($r=0.820$). The correlation is significant at 0.05 level of significance given the p-value (0.032) is less than 0.05 with level of significance testing at 5% significance level. However, there is a moderate positive correlation between performance and dividend payout ratio of Total Kenya Limited ($r=0.683$) which is significant at 5% significance level given that p-value(0.013) is less than 0.05 level of significance.

4.2.4.2 Regression in the Industrial and Allied Sector

Table 4.18: Athi-River Mining Limited

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.760	.211		.604	.017
	DPS/ EPS	1.664	.370	.775	.503	.039
	Market capitalization	0.228	.000	.403	.428	.011
	Total assets	0.396	.000	.282	.888	.038
	Total debts/Shareholders fund	0.320	.135	.474	.377	.000

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.023	4	.006	13.558	.001
	Residual	.000	1	.000		
	Total	.023	5			

MODEL SUMMARY

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.991[a]	.982	.909	.0204624648

a. Dependent Variable: ROA

b. Predictors: (Constant), Total debts/shareholders fund, Total assets, Market capitalization, DPS/EPS

Source: Research findings

Table 4.18 indicates the regression results with the model ROA = 1.760 + 1.664DPS/EPS + 0.228Market capitalization +0.396Total assets +0.320Total debts/shareholders funds. There exist a direct relationship between the predictor variables (DPS/EPS, Market capitalization, Total assets and Total debts/Shareholders fund) and the financial performance of Athi-river mining limited. An increase in the predictor variables (DPS/EPS, Market capitalization, Total assets and Total debts/Shareholders fund) by one unit leads to an increase in the financial performance by 1.664, 0.228, 0.396 and 0.320 respectively. The regression coefficients obtained are significant at 5% significance level given their p-values less than 0.05. The ANOVA indicates that the

relationship between predictor variables (DPS/EPS, Market capitalization, Total assets and Total debts/Shareholders fund) and financial performance is significant at 5% significance level since p-value (0.001) is less than 0.05.The R^2 which is 0.982 indicates that 98.2% of the variation in the financial performance is accounted for by DPS/EPS, Market capitalization, Total assets and Total debts/Shareholders fund. The adjusted R^2 (0.909) indicates that if the population was used rather than a sample, the study result would be 9.1% less variance in the performance.

Table 4.19: Bamburi Cement Company Limited

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.480	.183		.630	.031
	DPS/ EPS	.397	.231	.794	.721	.035
	Market capitalization	.006	.000	.315	.634	.040
	Total assets	.156	.000	.037	.026	.002
	Total debts/Shareholders fund	.726	.451	.451	.609	.000

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.006	4	.001	1.519	.037
	Residual	.001	1	.001		
	Total	.007	5			

MODEL SUMMARY

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.927[a]	.859	.813	.0308564064

a. Dependent Variable: ROA

b. Predictors: (Constant), Total debts/shareholders fund, Total assets, Market capitalization, DPS/EPS

Source: Research findings

Table 4.19 indicates the regression model generated. ROA=0.480 + 0.397DPS/EPS +0.006Market capitalization +0.156Total assets + 0.726Total debts/shareholders funds. This indicates that there is a direct relationship between the predictor variables (DPS/EPS, Market capitalization, Total assets and Total debts/Shareholders fund) such that an increase in the predictor variables by one unit results in an increase in financial performance of Bamburi

Cement Company Limited by 0.397, 0.006, 0156 and 0.726 respectively. The results indicate that the coefficients of the model are significant at 5% significance level given their p-values less than 0.05. The ANOVA indicates that the relationship between financial performance and predictor variables (DPS/EPS, Market capitalization, Total assets and Total debts/Shareholders fund) is significant since p-value (0.037) is less than 0.05. level significance level. The R^2 (0.856) indicates that 85.6% of the variation in the financial performance is accounted for by the predictor variables. The adjusted R^2 (0.813) indicates that if the population was used rather than a sample, the study result would be 18.7% less variance in the performance.

Table 4.20: BOC Kenya Limited

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.084	.099		.848	.000
	DPS/ EPS	.048	.019	.607	.480	.044
	Market capitalization	.753	.000	.646	.379	.003
	Total assets	.662	.000	.593	.548	.000
	Total debts/Shareholders fund	.320	.676	.294	.953	.001

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.011	4	.003	4.602	.035
	Residual	.001	1	.001		
	Total	.012	5			

MODEL SUMMARY

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.974[a]	.948	.901	.0248867705

a. Dependent Variable: ROA
b. Predictors: (Constant), Total debts/shareholders fund, Total assets, Market capitalization, DPS/EPS

Source: Research findings

Table 4.20 indicates the regression model generated. The model generated is ROA=0.084+0.048DPS/EPS +0.753Market capitalization +0.662Total assets +0.320Total debts/shareholders fund. There exist a direct relationship between the predictor variables (DPS/EPS, Market capitalization, Total assets and Total debts/Shareholders fund) and financial performance such that an increase in predictor variables by one unit results to an increase in financial performance by 0.048, 0.753, 0.662 and 0.320 respectively. The results indicate that the coefficients of the model are significant at 5% significance level given their p-values less than 0.05. The ANOVA indicates that the relationship between performance and the predictor variables is significant since p-value which is 0.035 is less than 0.05. The R^2 which is 0.948 indicates that 94.8% of the variation in the financial performance is accounted for by the

predictor variables. The adjusted R squared 0.901 indicates that if the population was used rather than a sample, the study result would be 9.9% less variance in the performance.

Table 4.21: East African Cables Limited

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.397	.290		.369	.002
	DPS/ EPS	.250	.251	.803	.997	.001
	Market capitalization	.292	.000	.252	.495	.007
	Total assets	.983	.000	.254	.292	.019
	Total debts/Shareholders fund	.034	.144	.274	.240	.000

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.064	4	.012	4.00	.009
	Residual	.003	1	.003		
	Total	.035	5			

MODEL SUMMARY

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.960[a]	.922	.708	.0522236048

a. Dependent Variable: ROA

b. Predictors: (Constant), Total debts/shareholders fund, Total assets, Market capitalization, DPS/EPS

Source: Research findings

Table 4.21 indicates the regression model generated (ROA=.397 +0.250DPS/EPS +0.292Market capitalization +0.983Total assets +0.034 Total debts/shareholders fund). The findings indicate that there is a direct relationship between the predictor variables (DPS/EPS, Market capitalization, Total assets and Total debts/Shareholders fund) and the financial performance of East African cables. An increment in predictor variables by one unit results in an increment in financial performance by 0.250, 0.292, 0.983 and 0.034 respectively. The results indicate that the coefficients of the model are significant at 5% significance level given their p-values less than 0.05. The ANOVA indicates that the relationship between performance and the predictor variables is significant at 5% significance level since p-value (0.009) is less than 0.05. The R^2

which is 0.922 indicates that 92.2% of the variation in the financial performance is accounted for by the predictor variables. The adjusted R^2 (0.708) indicates that if the population was used rather than a sample, the study result would be 29.2% less variance in the performance

Table 4.22: East African Breweries Limited

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.623	.728		.855	.000
	DPS/ EPS	.402	.791	.465	.508	.001
	Market capitalization	.104	.000	.813	.887	.008
	Total assets	.272	.000	.800	.223	.000
	Total debts/Shareholders fund	.839	2.746	.620	.306	.011

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.032	4	.001	4.00	.014
	Residual	.002	1	.002		
	Total	.007	5			

MODEL SUMMARY

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.852	.725	.673	.0426120385

a. Dependent Variable: ROA

b. Predictors: (Constant), Total debts/shareholders fund, Total assets, Market capitalization, DPS/EPS

Source: Research findings

Table 4.22 indicates the regression model generated (ROA=1.623 +0.402DPS/EPS +0.104Market capitalization +0.272Total assets +0.839Total debts/shareholders fund. The findings indicate that there is a direct relationship between the predictor variables (DPS/EPS, Market capitalization, Total assets and Total debts/Shareholders fund) and the financial performance of East African Breweries Limited. An increment in predictor variables by one unit results in an increment in financial performance by 0.402, 0.104, 0.272 and 0.839 respectively. The results indicate that the coefficients of the model are significant at 5% significance level

given their p-values less than 0.05. The ANOVA indicates that the relationship between the dependent variable (financial performance) and predictor variables is significant at 5% significance level since p-value (0.014) is less than 0.05. The R^2 which is 0.725 indicates that 72.5% of the variation in the financial performance is accounted for by the independent variables (DPS/EPS, Market capitalization, Total assets and Total debts/Shareholders fund). The adjusted R^2 (0.673) indicates that if the population was used rather than a sample, the study result would be 32.7% less variance in the performance

Table 4.23: KPLC

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.108	.023		.677	.034
	DPS/ EPS	.121	.169	.367	.713	.005
	Market capitalization	.324	.000	.222	.104	.002
	Total assets	.192	.000	.473	.527	.001
	Total debts/Shareholders fund	.026	.079	.437	.334	.000

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.003	4	.001	9.828	.034
	Residual	.000	1	.000		
	Total	.003	5			

MODEL SUMMARY

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.988[a]	.975	.876	.0087713954

a. Dependent Variable: ROA

b. Predictors: (Constant), Total debts/shareholders fund, Total assets, Market capitalization, DPS/EPS

Source: Research findings

Table 4.23 indicates the regression model generated (ROA=0.108 + 0.121DPS/EPS + 0.324Market capitalization +0.192Total assets +0.026Total debts/shareholders fund. The findings indicate that there is a direct relationship between the predictor variables (DPS/EPS, Market capitalization, Total assets and Total debts/Shareholders fund) and the financial

performance of KPLC. An increment in predictor variables by one unit results in an increment in financial performance by 0.121, 0.324, 0.192 and 0.026 respectively. The results indicate that the coefficients of the model are significant at 5% significance level given their p-values less than 0.05.The ANOVA indicates that the relationship between performance and the predictor variables is significant at 5% significance level since p-value (0.034) is less than 0.05. The R^2 which is 0.975 indicates that 97.5% of the variation in the financial performance of KPLC is accounted for by the predictor variables. The adjusted R^2 (0.876) indicates that if the population was used rather than a sample, the study result would be 12.4% less variance in the performance

Table 4.24: Total Kenya Ltd

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.637	15.534		.393	.012
	DPS/ EPS	.038	2.705	.021	.493	.016
	Market capitalization	.409	.000	.437	.420	.003
	Total assets	.347	.000	.206	.097	.001
	Total debts/Shareholders fund	.265	1.023	.225	.237	.033

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.917	4	.079	2.34	.002
	Residual	.098	1	.098		
	Total	.415	5			

MODEL SUMMARY

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.874[a]	.763	.712	.3135502994

a. Dependent Variable: ROA

b. Predictors: (Constant), Total debts/shareholders fund, Total assets, Market capitalization, DPS/EPS

Source: Research findings

Table 4.24 indicates the regression model generated (ROA=0.637 +0.038DPS/EPS + 0.409Market capitalization +0.347Total assets + 0.265Total debts/shareholders fund. The results

indicate that there is a direct relationship between the predictor variables (DPS/EPS, Market capitalization, Total assets and Total debts/Shareholders fund) and the financial performance of Total Kenya Limited. An increment in predictor variables by one unit results in an increment in financial performance by 0.038, 0.409, 0.347 and 0.265 respectively. The results indicate that the coefficients of the model are significant at 5% significance level given their p-values less than 0.05. The ANOVA indicates that the relationship between financial performance and the predictor variables is significant at 5% significance level since p-value (0.002) is less than 0.05. The R^2 which is 0.763 indicates that 76.3% of the variation in the financial performance is accounted for by the predictor variables (DPS/EPS, Market capitalization, Total assets and Total debts/Shareholders fund) and adjusted R^2 (0.712) indicates that if the population was used rather than a sample, the study result would be 28.8% less variance in the performance.

4.2.5 Alternative Investment Market Segment

4.2.5.1 Correlation in the Alternative Investment Market Segment

Table 4.25: Correlation in the Alternative Investment Market Segment

Name				
	Correlation		DPR	Performance
Express Kenya Limited	DPR	Pearson correlation Sig.(2-tailed) N	1 6	0.551 0.022 6
Kapchorua Tea Company Limited	DPR	Pearson correlation Sig.(2-tailed) N	1 6	0.999 0.000 6
Williamson Tea Kenya Limited	DPR	Pearson correlation Sig.(2-tailed) N	1 6	0.789 0.001 6

Source: Research findings

The results in table 4.25 indicates that the relationship between dividend pay-out ratio and performance of Express Kenya Limited using the Pearson correlations is a moderate positive correlation ($r=0.551<0.7$). This correlation is significant at 5% significance level given that p-value (0.022) is less than 0.05. Similarly, there is a strong positive correlation between performance of Kapchorua Tea Company Limited and DPR ($r=0.999$). The correlation is significant at 5% significance level given that p-value (0.000) is less than 0.05. Finally there is also a strong positive correlation between performance and dividend payout ratio of Williamson Tea Kenya Limited $r=0.789$. The correlation is significant at 5% significance level given the p-value (0.001) is less than 0.05 level of significance. This indicates that an increase in performance of Sasini there is an increase in dividend payout ratio.

4.2.5.2 Regression in the Alternative Investment Market Segment

Table 4.26: Express Kenya Limited

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.002	.749		.003	.008
	DPS/ EPS	.902	1.185	.336	.761	.006
	Market capitalization	.540	.000	.138	.601	.005
	Total assets	.394	.000	.536	.537	.027
	Total debts/Shareholders fund	.549	.174	.009	.157	.015

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.408	4	.102	25.862	.046
	Residual	.004	1	.004		
	Total	.412	5			

MODEL SUMMARY

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.995[a]	.990	.952	.0627761582

a. Dependent Variable: ROA
b. Predictors: (Constant), Total debts/shareholders fund, Total assets, Market capitalization, DPS/EPS

Source: Research findings

The regression analysis done in the table 4.26 indicates that the regression model in the financial performance of Express Kenya. The model generated is 0.002 +0.902DPS/EPS +0.540Market capitalization +0.394Total assets +0.549Total debts/shareholders fund. The relationship as indicated by the regression model is a direct relationship such that an increase in the predictor variables (DPS/EPS, Market capitalization, Total assets and Total debts/Shareholders fund) by one unit leads to an increase in financial performance of Express Kenya limited by 0.902, 0.540, 0.394 and 0.549 respectively. The coefficients are significant at 5% significance level as indicated by their respective p-values less than 0.05. The relationship between performance and the predictor variables is significant at 5% significance level as indicated in the ANOVA whose p-value (0.046) is less than 0.05.The R^2 =0.990 indicates that 99.0% of the variation in the

financial performance of Express Kenya Limited is accounted for by the predictor variables (DPS/EPS, Market capitalization, Total assets and Total debts/Shareholders fund). The adjusted R^2 (0.952) indicates that if the population was used rather than a sample, the study result would be 4.8% less variance in the performance

Table 4.27: Kapchorua Tea Company Limited

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.009	.171		.052	.003
	DPS/ EPS	.363	.008	-.007	.298	.001
	Market capitalization	.593	.000	.065	.682	.015
	Total debts/Shareholders fund	.879	.122	.039	.414	.019

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	47.704	3	15.901	672.589	.001
	Residual	.047	2	.024		
	Total	47.752	5			

MODEL SUMMARY

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	1.000[a]	.999	.998	.1537598195

c. Dependent Variable: ROA

d. Predictors: (Constant), Total debts/shareholders fund, Market capitalization, DPS/EPS

e. Excluded variable: Total assets; the variable has constant values which is zero

Source: Research findings

The regression analysis in the table 4.27 indicates the model ROA=0.009 + 0.363DPS/EPS +0.593Market capitalization +0.879Total debts/shareholders fund. There exists a direct relationship between the predictor variables (DPS/EPS, Market capitalization and Total debts/shareholders fund) and the financial performance of Kapchorua Tea Company Limited such that an increase in predictor variables (DPS/EPS, Market capitalization and Total debts/shareholders fund) by one unit results in an increase in financial performance by 0.363,

0.593 and 0.879 respectively. The regression coefficients are significant at 5% significance level since the p-values are less than 0.05. The relationship between performance and the predictor variables of Kapchorua Tea Company limited is significant at 5% significance level given that the ANOVA p-value (0.001) which is less than 0.05 level of significance. R^2=0.999 indicates that 99.9% of the variation in the financial performance is accounted for by the predictor variables. The adjusted R squared (0.998) indicates that if the population was used rather than a sample, the study result would be 0.2% less variance in the performance.

Table 4.28: Williamson Tea Kenya Limited

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.406	.015		.325	.023
	DPS/ EPS	.258	.030	.603	.459	.075
	Market capitalization	.268	.000	.730	.963	.042
	Total assets	.805	.000	.918	.744	.036
	Total debts/Shareholders fund	.432	.289	.696	.236	.029

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.045	4	.011	805.776	.026
	Residual	.000	1	.000		
	Total	.045	5			

MODEL SUMMARY

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	1.000[a]	1.000	.998	.0037227624

f. Dependent Variable: ROA

g. Predictors: (Constant), Total debts/shareholders fund, Total assets, Market capitalization, DPS/EPS

Source: Research findings

The regression analysis in the table 4.28 indicates the model ROA=0.406 +0.258DPS/EPS +0.268Market capitalization +0.805Total assets +0.432Total debts/shareholders fund. There exists a direct relationship between the predictor variables (DPS/EPS, Market capitalization, Total assets and Total debts/shareholders fund) and the financial performance of Williamson Tea Kenya Limited such that an increase in predictor variables (DPS/EPS, Market capitalization,

Total assets and Total debts/shareholders fund) by one unit results in an increase in financial performance by 0.258, 0.268, 0.805 and 0.432 respectively. The coefficients generated are significant at 5% significance level since the p-values are less than 0.05. The relationship between performance and the predictor variables of Williamson tea Kenya limited is significant at 5% significance level given that the ANOVA p-value (0.026) is less than 0.05. The R^2=1.000 indicates that almost 100% of the variation in the financial performance of Williamson Tea Kenya Limited is accounted for by the predictor variables (DPS/EPS, Market capitalization, Total assets, Total debts/shareholders fund). The adjusted R squared (0.998) indicates that if the population was used rather than a sample, the study result would be 0.2% less variance in the performance

4.3. Interpretation of Findings

The study has indicated that there is strong positive correlation between dividend payout ratio and the financial performance of the listed companies across different sectors. This indicates that any change in the dividend payout ratio will bring effects on the financial performance of the companies. The study also indicates that: DPS/EPS, Market capitalization, total assets and total debts/shareholders fund have a direct relationship with financial performance such that an increase in DPS/EPS, Market capitalization, total assets and total debts/shareholders fund by one unit leads to a positive increase in the financial performance of the listed companies. This finding is assumed to be applicable to all companies in Kenya that have same financial performance and same modes of operations as the listed companies.

The coefficients of the regression are all significant at 5% significance level given that the (p-value<0.05) is less than 0.05 level of significance for all the study findings where this indicates

that the variables are strong predictors of performance. On the ANOVA, the relationship between the predictor variables and performance is significant at 5% significance level since p-value ($p<0.05$) is less than 0.05 level of significance. This shows that the relationship between the variables is significant. The R^2 indicates the measure of variability in the performance that is accounted for by the predictor variables. From the results R squared >0.80 for all the responses indicates that more than 80.0% of the financial performance of all the companies under the study are accounted for by the predictors (DPS/EPS, Market capitalization, total assets and total debts/shareholders fund). An adjusted R squared (above 0.80) in all cases of the analysis indicates that if the population of the response was added, it would only give 205 and below less variance to the study results indicated.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

The chapter gives the summary, conclusion and recommendation based on the research findings as carried out. The recommendations given in this chapter will be useful to the stakeholders at Nairobi stock exchange and academic researchers who may be interested in studying the movement of trade at the NSE.

5.2 Summary

The study was done with the objective to determine the relationship between dividend pay-out ratio and the performance of firms in Nairobi Stock Exchange. The study findings indicated that in the agricultural sector there is a strong correlation between dividend pay-out ratio and firms' performance. In the agricultural sector, three firms were studied. The positive relationship that has been established under this study supports Ross (1977) who observed that an increase in dividends payout ratio is often accompanied by an increase in the prices of stocks while a decline in dividend generally leads to a stock price decline. In determining the relationship between performance and independent variables that include dividend payout ratio given by dividend per share divided by earnings per share, firm size measured by market capitalization, tangible assets of the firm, leverage given by total debt divided by shareholders equity using regression indicates that the these independent variables are strong predictors of performance of the firms trading at Nairobi Stock exchange. This indicates that highly indebted firms use most of the free cash flow to make debt repayments. The study shows that the size of the firms also influences the performance of the firms positively thereby confirming the idea of Jovanovic (1982) who finds that the entry size of the firms may be small but if the firm is successful it will eventually expand

implying that longer business survival is directly linked to greater operating performance and size. Similarly the study findings indicate tangible assets are strong predictors of the performance of firms at the Nairobi stock exchange. This is supported by Jensen and Meckling (1976), who argue that tangible assets provide collateral to lenders in times of financial distress and assist as security against debt.

The study also indicates that there is a strong positive relationship between dividend payout ratio and firm's performance in the commercial and services sector. All the firms in the study revealed that an increase in dividend payout ratio results to an increase in performance of the firms. The size of the firms, the total tangible assets and market capitalization are strong predictors of the performance of the firms as indicated by the R squared generated through regression.

The study also indicates from the findings that there is a positive correlation between dividend payout ratio and performance of firms in the financial and investment sector. This indicates that the more stable the firm's cash flow, the better it is able to maintain a 'high' dividend relative to its expected per share earnings since an increase in dividend payout ratio leads to an increase in performance as reported by the results. The size of the firm, the total tangible assets and the debts are strong predictors of performance as indicated by the results in R-squared in every firm at the financial and investment sector that was studied.

The study findings also indicate that in the industrial and allied sector, there exist a strong and positive correlation between dividend payout ratio and the performance of firms in the sector at the Nairobi Stock Exchange. This confirms that dividend policy is one of the most important financial decisions that corporate managers encounter (Robins and Stobaugh (1973), since it has the potential of increasing share prices and hence returns to investors, and the financing of internal growth and the equity base through retentions together with its gearing and leverage.

Finally the study also finds that there is a strong positive correlation between dividend payout ratio and the performance of firms in the alternative investment market sector. The study there confirms that the higher the dividend payout ratio the higher the performance and vice versa as reported by the correlation obtained for the firms at the Nairobi stock exchange. Therefore dividend is a clear factor in measuring the performance of the firms. Their study therefore shows that dividend policy forecasts future earnings and growth of firms. An increase in dividends in a quarter may be the result of the management's policy to keep investors satisfied and prevent them from selling the stock at times when future earnings are expected to decline or current losses are expected to continue in the trading.

5.3 Conclusion

Dividend payout ratio affects financial performance and this relationship is strong and positive across most firms at the Nairobi Stock Exchange. It therefore shows that dividend policy is relevant and therefore affects the performance of a firm hence its value contrary to theories that view dividend policy as irrelevant. Total assets and revenue are also factors that affect the performance of a firm as shown by the research findings. The research findings also show that the major factors that affect the dividend policy of listed firms are; firm size, market capitalization, tangible assets, total debts and shareholders' equity. This determines firms profitability, pattern of past dividends, legal rules, financial leverage, investment opportunities, growth stage and capital structure. Some of the factors such as ownership structure, shareholder's expectations, tax position of shareholders, industry practice growth stage capital structure and access to capital markets can also be considered in designing a dividend policy. The firms that have been analyzed at the Nairobi Stock Exchange in this study indicates that firm

performance is directly influenced by dividend payout ratio, market capitalization, tangible assets, total debts and shareholders' equity as indicated by the results in the regression analysis done in this study.

5.4 Recommendations for the Policy Makers

The study recommends that managers should devote adequate time in designing a dividend policy that will enhance firm performance and therefore shareholder value. Managers consider factors such as ownership structure, shareholder's expectations, and tax position of shareholders, industry practice, growth stage, capital structure and access to capital markets in designing a dividend policy. Finally, managers of the firms at the stock exchange should reduce their total debts to moderate performance and profitability.

5.5 Limitations of the Study

The study was limited to only four variables which include dividend payout ratios firm size, total assets and leverage. However, more factors may affect financial performance of a firm. The study faced time limitations. The duration in which the study was to be conducted was limited therefore an exhaustive research could not be carried out on all the factors that influence financial performance.

The study was also limited to the listed companies only at the Nairobi Securities Exchange. The study concentrated on listed companies rather than all the companies in Kenya.

5.6 Recommendations for further research

The study finally recommends a further study to be carried out to establish the effect of taxation on the financial performance of firms at the NSE. A further research may be conducted to establish the impact of total liability on the performance of firms at the NSE. A study should be carried out to study the effect of corporate governance, operating performance and growth on financial performance of companies in Kenya.

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APPENDICES

APPENDIX I: Letter of Introduction

UNIVERSITY OF NAIROBI
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MBA PROGRAMME

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P.O. Box 30197
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DATE.....2/8/2013

TO WHOM IT MAY CONCERN

The bearer of this letter .....ELIZABETH.....N.....KARETHIO....

Registration No.....D61/60433/2011.....

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
02 AUG 2013
MBA OFFICE
P.O. Box 30197 – 00100, NAIROBI

PATRICK NYABUTO
FOR: MBA CO-ORDINATOR
SCHOOL OF BUSINESS

APPENDIX II

List of Companies used in the Study

Agricultural Sector
Kakuzi Ltd.

Rea Vipingo Ltd.

Sasini Tea and Coffee Ltd.

Commercial and Services Sector

Car and General Ltd

CMC Holdings

Kenya Airways

Nation Media

TPS

Financial and Investment

Barclays Bank

Diamond Trust Bank

Housing Finance Co.

Jubilee Insurance

Pan Africa Insurance

Industrial and Allied Sector

Athi River Mining

Bamburi Cement

BOC Kenya Ltd

East Africa Cables

East African Breweries

KPLC

Total Kenya

Alternative Investment Market Segment

Express Kenya

Kapchorua Tea

Williamson Tea Kenya Ltd.

APPENDIX III

List of Companies Quoted on the Nairobi Securities Exchange

Agricultural

1. Eaagads Ltd.
2. Kapchorua Tea Co. Ltd.
3. Kakuzi Ltd.
4. Limuru Tea Co. Ltd.
5. Rea Vipingo Plantations Ltd.
6. Sasini Ltd.
7. Williamson Tea Kenya Ltd.

Commercial and Services

1. Express Ltd.
2. Kenya Airways Ltd.
3. Nation Media Group Ltd.
4. Standard Group Ltd.
5. TPS Eastern Africa (Serena) Ltd.
6. Scan group Ltd.
7. Uchumi Supermarket Ltd.
8. Hutchings Biemer Ltd.
9. Longhorn Kenya Ltd.

Telecommunication and Technology

1. Access Kenya Group Ltd.

2. Safaricom Ltd.
3. Automobiles and Accessories.
4. Car and General (K) Ltd.
5. CMC Holdings Ltd.
6. Sameer Africa Ltd.
7. Marshalls (E.A.) Ltd.

Banking

1. Barclays Bank Ltd.
2. CFC Stanbic Holdings Ltd.
3. Diamond Trust Bank Kenya Ltd.
4. Housing Finance Co. Ltd.
5. Kenya Commercial Bank Ltd.
6. National Bank of Kenya Ltd.
7. NIC Bank Ltd.
8. Standard Chartered Bank Ltd.
9. Equity Bank Ltd.
10. The Co-operative Bank of Kenya Ltd.

Insurance

1. Jubilee Holdings Ltd.
2. Pan Africa Insurance Holdings Ltd.
3. Kenya Re-Insurance Corporation Ltd.

4. CFC Insurance Holdings
5. British American Investment Company (Kenya) Ltd.
6. CIC Insurance Group Ltd.

Investment

1. City Trust Ltd.
2. Olympia Capital Holdings Ltd.
3. Centum Investment Co. Ltd.
4. Trans-Century Ltd.

Manufacturing and Allied

1. B.O.C. Kenya Ltd.
2. British American Tobacco Kenya Ltd.
3. Carbacid Investments.
4. East African Breweries Ltd.
5. Mumias Sugar So. Ltd.
6. Unga Group Ltd.
7. Evaready East Africa Ltd.
8. A. Baumann Co. Ltd.

Construction and Allied

1. Athi River Mining Ltd.
2. Bamburi Cement Ltd.
3. Crown Berger Ltd.
4. East Africa Cables Ltd.
5. East Africa Portland Cement Ltd.

Energy and Petroleum

1. Kenol/Kobil Ltd.
2. Total Kenya Ltd.
3. KenssGen Ltd.
4. Kenya Power and Lighting Company Ltd.