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

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DECLARATION

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

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This research project has been submitted for examination with my approval as the University Supervisor.

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DEDICATION

I dedicate this project to my dear loving husband Mr. Benson Maina, my daughter
Aimee, and my whole family.

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LIST OF ABBREVIATIONS

CMA   Capital Markets Authority

D/E   Debt Equity Ratio

DPR   Dividend Payout Ratio

DPS   Dividends per share

EPS   Earnings per Share

FIXA   Fixed Assets

GEMS   Growth Enterprise Market Segment

NASDAQ   National Association of Securities Dealers Automated Quotations

NSE   Nairobi Securities Exchange

ROCE   Return on Capital Employed

SACCOs   Savings and Cooperative Credit Societies

ABSTRACT

As a company earns profits it can it can pay it back to its investors as dividends or it can retain it within the business for reinvesting. It may however decide to apportion the surplus to both. In taking any of the above course of action, managers should concentrate on how to maximize the wealth of shareholders for whom the firm is being managed. Decision making about dividend policy is one of the most important decision that companies have to make. Dividend policy is dependent on lots of factors such as type of industry, trends of profits, taxation policy and liquidity. The objective of the study was to determine the effect of dividend policy on the financial performance of firms listed at the NSE. The study period was a five year period i.e. 2010-2014. This study involved the use of a descriptive research design using a sample of 20 firms listed at the NSE 20 share index. The population of interest consisted of all the 64 listed firms in Kenya.

This study found that dividend policy had a significant positive effect on financial performance of firms listed at the NSE. Except firm size and leverage, the other variables (dividend payout ratio, timing of dividend payments and form of dividend payments) had a significant positive impact on the value of the firm since their p-value was lower than the accepted critical value. Firm size and leverage has a negative effect on financial performance of firms. Correlation coefficient was also used and concluded that dividend policy had a positive correlation with the financial performance of the firm. The study concluded that the major factors that affect financial performance of listed firms are; DPR, form of dividend payments and timing of dividend payments. Other factors such as total assets and leverage have no significant effect on the financial performance of a firm.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

As a company earns profits it can do one of two things with that surplus: It can pay it back to its investors as dividends or it can retain it within the business as addition to shareholders equity account. This is known as retained earnings. It may however decide to apportion the surplus to both. Earnings are strictly the free cash flows available for distribution to investors after all expenses and taxes have been paid. If the firm decides to redistribute the earnings to the investors then the investors have the option of reinvesting it themselves or spending it. On the other hand, if the firm wishes to raise more capital for reinvestment then it can do so by raising equity or debt from the capital market. Priya and Nimalathasan (2013) gave their stand stating that, in reality, divided policy is more commonly an instrument of wealth distribution to shareholders than it is an instrument of wealth creation to stakeholders.

Should the firm distribute all or proportion of earned profits in the form of dividends to the shareholders, or should it be ploughed back into the business? Presumably, in taking any course of action, managers should concentrate on how to maximize the wealth of shareholders for whom the firm is being managed. Managers must not only consider the question of how much of the company's earnings are needed for investment, but also take into consideration the possible effect of their decisions on the firm's performance (Bishop et al., 2000). Amidu and Abor (2006) argue that there are many reasons why companies may decide to pay or not pay dividends. Dividend policy is all about how much it matters to investors whether they receive their money now in form of dividends or later in form of capital appreciation. According to Modgliani and Miller (1961), a dividend policy is irrelevant in determining the value of the firm. However, what this hypothesis relies upon is the perfect substitutability in the investors mind between current dividend and future dividends.

1.1.1 Dividend Policy

The dividend Policy is one of the most challenging topics of modern financial economics. It is a policy or guidelines a company uses to decide the amount of dividends a company

will pay to its shareholders, when to pay and the intervals of payments. Brealy, Myers and Marcus (2007) defines it as the decision of whether to pay out earnings as dividends or to reinvest them. Nissim and Ziv (2001) described divided policy as the regulation and guidelines that a company uses to decide to make divided payments to its shareholders. This is supported by the fact that shareholders need to get a return for their risk and investment, and dividends are determined by diverse factors in different organizations. Gordon and Lintner (2012) advanced a theory that shows the relationship between a firm's payment of dividends and its market value. They suggested that there is in fact a direct relationship between a firm's dividend policy and its market value. This is equally supported by the bird in hand theory (Gordon, 1963).

Priya and Nimalathasan (2013) gave their stand stating that, in reality, divided policy is more commonly an instrument of wealth distribution to shareholders than it is an instrument of wealth creation to stakeholders. Theorists such as Lintner (1956) carried out such research to determine how firms should formulate dividend policy decisions. Marsh and Merton (1987) further summarized Lintner's studies to establish that dividends payout are pegged to current earnings and target level of dividends. The patterns of Dividend Policies vary across firms and even countries. A strong, sustainable dividend payout can be synonymous with good management. It shows to prospective investors and shareholders that the company is making sound financial decisions. It is one of the reasons why companies are stubborn to cut their dividend, as doing so signals that management has not been able to run the company efficiently. Typically, older and more mature companies will tend to have a higher dividend payout as they have the financial capabilities to payout more to shareholders. Also, some companies, especially new ones, will prefer to have a lower dividend payout ratio in order to retain earnings that can be utilized for future company growth. One argument to justify the payment of dividends is that dividends are cash in hand, while capital gains are cash in the bush. Capital gains to be received in the future should be riskier than the dividends received today (Gordon, 1963).

1.1.2 Financial Performance

Amidu and Abor (2006) described ways of measuring financial performance. These include; profitability, cash flow, sales growth and market to book value. The portion of

earnings not paid out to investors is ideally reinvested back to the company in order to provide for future earnings growth. Investors are very keen in finding out how much of the earnings is issued out to investors and how much is kept back to the company. Earnings kept from the investors is known as retained earnings, which ideally should be reinvested to provide for future earnings growth. They hope that the firms will use their retained earnings to either maximize their current operations or invest it to recoup higher profits.

Financial performance is a subjective measure of how well a firm can use its assets from its primary mode of business to generate higher revenues. All organizations have financial performance measures as part of their performance management, although there is debate as to the relative importance of financial and non-financial indicators. Evaluating the financial performance of a business allows decision-makers to judge the results of business strategies and activities in objective monetary terms. Growth is generally seen as a sign of success, provided it results in improvements in financial performance (Brealy, Myers & Marcus, 2007).

 Financial performance can be measured in many ways. These include: Profitability which describe how much wealthy a company is making after paying for all the expenses and other charges. The higher the profits the better the firms performance and vice versa. Financial performance can also be measured using; Cash flow which is the difference between the amount of cash at the end of the period and the amount of cash at the beginning of the same period. Positive cash flows indicate a positive financial performance while a negative one indicate poor performance. Ross, Westerfield and Jaffe (1999) defines cash flow as cash generated by the firm and paid to creditors and shareholders.

It can also be measured by the Balance sheet strength. This is the company's assets relative to its liabilities at a specific point in time. More assets and fewer liabilities results in a stronger balance sheet. A strong balance sheet is highly preferred. Several ratios can be calculated from the balance to measure financial performance e.g.; Return on Assets, Return on Investments, Return on Equity, etc (Brealy, Myers & Marcus, 2007).

1.1.3 Effect of Dividend Policy on Financial Performance

Investors seeking high current income and limited capital growth prefer companies with a high dividend payout. However, investors seeking higher capital growth may prefer a lower payout because capital gains are taxed at a lower rate. High growth firms in early life generally have low or zero dividend payouts in order to reinvest as much of their earnings as possible. As they mature, they tend to return more of the earnings back to investors. Dividends are important to investors as it's one of the signs that a company is generating profits (Barron, 2002).

A study by Arnott and Asness (2003) revealed that future earnings growth is associated with high dividend payout. They argued that expected earnings growth is fastest when current payout ratios are high and slowest when payout ratios are low and further stated that companies that pay high dividends are generally confident in their ability to provide strong earnings growth in the future. Gordon and Lintner (2012) advanced a theory that shows the relationship between a firm's payment of dividends and its market value. They suggested that there is in fact a direct relationship between a firm's dividend policy and its market value. This is equally supported by the bird in hand theory (Gordon, 1963).

A positive relationship is expected to exist between dividend policy and a company's performance. A positive change in the firm's dividend policy is supposed to communicate bright future prospects for the company according to Ross (1977) in Information signaling theory. The main aim of dividends in a firm is shareholder's wealth maximization, to increase the value of the firm and to signal to stakeholders that the firm's finances are sound.

1.1.4 The Nairobi Securities Exchange

The NSE is the principal stock exchange of Kenya. It began in 1954 as an overseas stock exchange while Kenya was still a British colony with permission of the London Stock Exchange. Two indices are popularly used to measure performance. The NSE 20-Share Index has been in use since 1964 and measures the performance of 20 blue-chip companies with strong fundamentals and which have consistently returned positive financial results. This index primarily focuses on price changes for these 20 companies. In 2008, the Nairobi

Stock Exchange 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. Its attention is therefore on the overall market capitalization rather than the price movements of select counters. NSE has 64 listed firms (NSE, 2015).

For a company to be listed at the NSE, one of the requirements is that they should have a clear future dividend policy. This makes dividend policy a very important factor worthy of management attention. In Kenya dividends are taxed at 5% as a final tax for individuals while capital gains tax are tax exempt (Income Tax Act, 2012). Firms that are able to meet the above requirement and meets the needs of individual investors are more likely to be able to command a higher share price premium and thus an increased firm performance.

Most firms listed at the NSE mostly pay dividends in the form of cash dividend and bonus shares. Buy back of shares as a form of dividend is rare in Kenya. Cash dividends are usually paid twice in any given financial year as interim, which is paid at the end of quarter two, and final dividend which is paid at end of the financial year. In some years when there is unexpected income, firms pay a one-off extra dividend which is consistently paid in the subsequent years. However, there are some firms which have not paid a dividend for many years due to financial difficulties. Most firms listed at the NSE have clearly defined dividend policies that are in line with the general dividend practice in the industry.

1.2 Research Problem

Modigliani and Miller (1961) provide the basis for the study of dividend policy in the modern era. They argue that under certain perfect market conditions, dividend policy is irrelevant. He argues that the effect of a firm's dividend policy on the current price of its shares is a matter of considerable importance not only to management but also investors. There are two distinct and opposing theories on dividend policy and its effect on financial performance, namely, the irrelevant dividend theory and the relevant dividend theory. The dividend policy controversy as sparked by these two opposing dividend theories have contributed hugely to the ongoing dividend debate as to whether dividend policy affects firm's financial performance and therefore the value of the firm (Lease et al., 2000).

Generally most investors are risk averse and they would like to venture in investments which are less risky and assured of stable return on their investment. One of the objectives of investors is to maximize their wealth. Management are torn in between the payment of dividends or not to pay and use the money in financing their debts or invest it. On the other hand the managements must meet the various needs of wealth maximization and paying the dividends to the stakeholders. For the management to be able to balance between the paying of dividends to the shareholders and again invest in projects that will provide returns to the organization is a major dilemma for the management. Arnott and Clifford (2003) concluded that expected earnings growth is fastest when current payout ratios are high and slowest when payout ratios are low and further stated that companies that pay high dividends are generally confident in their ability to provide strong earnings growth in the future.

A number of local studies in the area of dividend policy and have been undertaken in Kenya. Yegon, Cheruiyot and Sang (2014) studied the effects of dividend policy on firm's financial performance. They looked at dividend policy as a factor of ROCE, FIXA, and EPS but did not look at the form and timing of dividend policy. Chumari (2014) conducted a study to determine the relationship between dividend payout and financial performance of firms listed in Kenya. However the study only focused on dividend payout and excluded all banks and insurance companies. She did not look at timing and form of dividend payments. Ndirangu (2014) studied the effect of dividend policy on future financial performance of firms listed at the NSE. He focused on retained and distributed earnings, change in cashflows and net operating assets but did not look at the dividend payout, form and timing of dividend payments. Mutisya (2014) studied the relationship between dividend payout and financial performance of firms listed at the NSE. However he only concentrated on dividend payout ratio.

Dividend policy play an important role to almost all economies in the world, especially to firms in developing countries with major income distribution challenges. The NSE creates an important avenue for attracting investors both local and foreign. The type of dividend policy a firm should adopt is considered to be one of the most important financial decisions that corporate managers make. This is because it has potential implications for firm's performance which in turn affects returns to investors. It is the work of management to

satisfy the needs of shareholders e.g. through dividend payments or capital gains. Since the main objective of financial management is to maximize the value of shareholders which can only be achieved by improving on financial growth, this puzzle needs further research to ensure development of appropriate dividend policies.

Literatures from past studies reveal that most researchers have been skewed to the relationship between dividend payout and firm performance and only looked at dividend payout ratio as the only factor of dividend policy. A few have studied the effect of dividend policy on future financial performance but only focused on retained and distributed earnings, change in cashflows and net operating assets. Motivated by this research gap the question is, what is the effect of dividend policy on financial performance of firms listed at the NSE?

1.3 Research Objective

The objective of this study was to determine the effect of dividend Policy on the financial performance of firms listed at the Nairobi Securities Exchange.

1.4 Value of the Study

The results obtained from the research will be of benefit to both scholars of finance and to firms in Kenya. To the Board of Directors and managers of firms in Kenya, it will help in planning on the proportion of profits that should be retained versus the portion that will be distributed as dividends to stockholders. Managers' ability to invest in projects largely depends on the amount of earnings that they retain after dividends payout to shareholders as more dividends may mean fewer funds available for investment. This study will therefore aid management and other policy makers to make better decisions.

It will also be of benefit to Investors in that they will understand the effect of dividends they receive on the firm and will determine whether they will want to receive their money now in form of dividends or later in form of capital appreciation. In any company, Shareholders are rational investors and in any company, they usually expect to receive some income as return on their investments. The ability of a company to pay dividends will to a large extent depend on its financial performance.

This research will help the government and regulatory bodies to monitor performance of the firms listed at the NSE for economic stability. The results from the study will help government regulatory agencies like the Central Bank of Kenya (CBK) and the Capital Markets Authority (CMA) in developing a regulatory framework that facilitates suitable dividend policies for the respective firms.

The study will be helpful to academicians in that it will contribute to the body knowledge. It will also help in opening up opportunities for doing further research on dividend policy and firm performance. The results will be a source of reference and basis for further research.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter seeks to review the various literary and scholarly writings and reviews by scholars and researchers regarding dividend policy. It also covers the theoretical explanations and the empirical expositions studied by previous researchers and scholars pertaining dividend policy and its application by firms. The chapter also gives a brief overview of various theoretical modeling and empirical investigations by financial economists.

2.2 Theoretical Review

Several theories have been developed to explain the dividend policy puzzle. These include: Agency theory, Signaling theory, Bird in the hand theory, Modigliani and Miller theory, and residual theory of dividends. Four theories are discussed below.

2.2.1 Agency Theory

The agency theory is based on the assumption that the firm as a collection of groups of individuals with conflicting interests and self-seeking motives. Jensen and Meckling (1976) define agency relationship as a contract under which one or more persons referred to as the principal engage another person referred to as the agent to perform some service on their behalf which involves delegating some decision making authority to the agent. Agency conflicts arise when there is an agency relationship. The management may conduct actions which are not in the best interest of the shareholders. Such conflicts lead to increased agency costs (Ho, 2003).

In such cases, firms will prefer to increase their dividends and reduce agency cost by distributing the free cashflow. Consequently, markets react positively to this type of information. Studies suggest that dividend payout ratios may be explained by reduced agency costs when the firm increases its dividend payout.

2.2.2 Signaling Theory

Miller and Rock (1985); Bhattacharya (1979) developed this theory. The signaling effect of dividends theory states that dividends convey information about future earnings. It supports the fact that investors can infer information about a firm's future status and cash flows based on the signals that come from the announcements of dividends by a firm, both checking from stability of dividends and changes in dividends. Thus there is a positive reaction to dividend profit increase and a negative one to dividend profit decrease. The theory supports the fact that dividend policy affects positively the financial performance of a firm.

However, Miller and Modigliani (1961) argued differently. They noted that that a firm's top management has all the information regarding the operations and strategy of the firm and can easily forecast future earnings of the company. As a result information asymmetry occurs leading investors to translate every move by the company as a signal to future earnings. Thus dividends act as a signal to a firm's future performance. Some studies have found out that dividends do carry information to the market and to investors about the performance of the firm though they may not be the perfect signal (Griffin, 1976). Therefore, investor's reactions to changes in dividend policy do not necessarily mean that investors prefer dividend to retained earnings. Rather, they simply indicate that there is important information or signaling content in dividend announcements.

2.2.3 Bird in the Hand Theory

The bird in the hand theory states that dividends are relevant in determining the value of the firm (Gordon, 1963). This is based on the notion that in the world of uncertainty and imperfect information, dividends are valued differently from retained earnings. Investors are viewed to be rational and thus prefer "a bird in hand", in this case the cash dividends, than "two in bush" in this case, future capital gains. Divided policy developed from the need of investors getting an annual return other than capital gains, (Lintner, 1956). Leaving the decision on issuance of dividends to directors and company managers is a challenge because investors have diverse views on present cash dividends and future capital gains.

Therefore, investors would be inclined to pay a higher price for shares on which current dividends are paid. Current dividend payment (bird in the hand) reduce investor uncertainty and result in the high value of the firm. Investors would therefore prefer dividends to capital gains (Amidu, 2007). This is because, a higher current dividend reduces uncertainty about future cash flows to investors, a high payout ratio will reduce the cost of capital, and hence increase share value, (Baker, Veit, & Powell.,2001).

2.2.4 Residual Theory of Dividends

This is a school of thought which suggests that the firm should only pay dividends from residual profit funds left after all suitable investment opportunities have been financed. These residual dividends are paid from internally generated equity. With this policy, the firm's main focus is on investments and not dividends, thus dividend policy is irrelevant. In this case, dividends are only paid when retained earnings exceed the funds required to finance investment projects. This policy reduces the need to raise fresh capital, thus minimizing on floatation and signaling costs, hence minimizes the weighted Average cost of capital.

The view of management in this case is that the wealth of its shareholders will be maximized by investing the earnings in the appropriate investment projects, rather than paying them out as dividends to shareholders. With high level of investment, investors are assured of rapid and higher rate of growth.

2.3 Determinants of Financial Performance on Listed Firms

There are several factors that affect firm's financial performance. They include: Size of the firm, Leverage, Dividend policy and Liquidity. These are explained below.

2.3.1 Size of the Firm

Previous studies have shown that the size of a firm greatly determines its financial performance. Love and Rachinsky (2007) states that larger firms have better performance. Bigger firms are more competitive than smaller firms and they also enjoy the economies of scale hence higher profits are realized. Large firms have easier access to the most important factors of production, including labor and capital and they often get cheaper

funding. However, firms can become too large up to a certain level where the size could affect the financial performance of the firm due to bureaucratic reasons.

2.3.2 Leverage

Leverage is defined as the proportion of debt to equity capital of a firm. The proportion of the two affects the cost of capital and the value of the firm (Pandey, 2007). The amount of debt a firm has dictates the financial performance of a firm. According to Jensen (1986), debt financing reduces the moral hazard behavior by reducing cash flow at the managers' disposal. This increases their pressure to perform hence improving firm's financial performance. Hence firms with high leverage are better placed to financially perform better. Several researchers have studied the relationship between leverage and firm performance and found out that high leverage decreases the conflict between management and shareholders leading to improved performance hence a positive relationship exists.

2.3.3 Dividend Policy

From a wide perspective, a firm's performance can be determined by its ability to issue dividends, the timing of dividend payments and the mode in which it pays those dividends. This is because, the above dictates investor wooing and confidence to inject more monies in the firm. Gordon and Lintner (2012) advanced a theory that shows the relationship between a firm's payment of dividends and its market value. They suggested that there is in fact a direct relationship between a firm's dividend policy and its market value. This is equally supported by the bird in hand theory, (Gordon 1963). The school of thought by Walter and Gordon (1965) who believe that current cash dividends are less risky than future capital gains supports dividend payments and argue that investors prefer those firms which pay regular dividends, and such dividends affect the market price of the share.

2.3.4 Liquidity

Liquidity is the available cash for the near future, or any asset that can be easily and cheaply converted to cash. A firm can use its readily available cash to finance its operations when the long-term financing is not available. Readily available cash also helps to deal with its obligations when the earnings are low, and can also help in meeting unexpected emergencies. Almajali et al. (2012) found that firm liquidity had significant effect on

Financial Performance of firms. It is therefore important that companies increase their current assets and decrease current to improve on liquidity.

2.4 Empirical Studies

La Porta et al. (2000) did a study to test the agency cost hypothesis. The study was based on a sample of 4103 companies from 33 countries. These countries were divided into two groups: countries that provide good legal protection for minority shareholders and countries where shareholders had poor legal protection. Based on these two groups, the authors then used cross-sectional variation to examine the agency approach to dividend policy. They used two models to analyze the effect of investor protection on dividends payout; the first one being the outcome model and the second the substitute model. According to the first model, dividends are an outcome of the effective legal protection of shareholders, which enables minority shareholders to extract dividend pay-outs from corporate insiders. In the second model, they found that dividends are a substitute for effective legal protection, which enables firms in unprotected legal environments to establish a reputation for the good treatment of investors through dividend policy. The author's findings are consistent with and in support of the agency cost hypothesis. La Porta et al. (2000) concluded that "Our data suggest that agency approach is highly relevant to an understanding of corporate dividend policy around the world"

Nissim and Ziv (2001) studied the relationship between dividend changes and future profitability for a period of five years (1963 to 1968). Regression analysis was used with earnings being the dependent variable and dividend the independent variable. The study found out that dividend changes were positively related to earnings every time the dividends changed. They also found out that dividend changes provided information about the level of profitability in subsequent years.

Parsian, Koloukhi and Abdolnejad (2013) studied the effect of payout ratio on a firm's future earnings growth on listed companies in Iran for a period of 6years (2004 – 2010). 102 companies were analyzed. Ordinary least squares was used to test the variables where Earnings growth was the dependent variable leverage, return on assets, past earnings growth, dividend payout ratio, size and earnings per share were the independent variables. They concluded that there existed a positive relationship between dividend payouts and

future earnings growth. In short, dividend payout had a great effect on a firm's future performance

Ho (2003) did a research study on dividend policies in Australia and Japan over a ten-year period (1992 to 2001). 332 firms listed in the Australian and Japanese markets were used as sample. He found out that Australia had a higher dividend payout compared to Japan. He also found out that this was due to environmental influence. He found out that dividend policy is highly affected by size in the case of Australia and liquidity in the case of Japan. The industry effect was found to be significant in both Australia and Japan indicating the importance of the industry in which a company competes.

Baker et al (2001) studied the relationship between dividend policy and firm value on NASDAQ firms that pay cash dividends. A sample of 188 firms was used to examine how the firms viewed dividend policy and the managers were interviewed. They found out that most firms believed that dividend policy affects the value of the firm. They also found out that the firms agreed that it was important for firms to maintain an uninterrupted record of dividends payment.

Amidu and Abor (2006) studied the determinants of dividend payout ratios of listed firms in Ghana for a six year period 1998-2003. A sample of 20firms was used and they used panel regression for analysis. They also used profitability, cash, institutional holdings of equity stock, risk, tax, growth in sales and market-to-book value as the independent variables. They found that there exists a significant relationship between dividend payout ratio and profitability. They also found out that there exists a correlation between dividend payout and risk, institutional holding, growth and market-to-book value.

Chumari (2014) conducted a study to determine the relationship between dividend payout and financial performance of firms listed in Kenya over five year period (2008 to 2012). Secondary data was obtained from the NSE and financial statements of thirty firms excluding banks and Insurance companies were analyzed. Descriptive statistics was used and a t-test with 95% confidence level to discuss the findings. She found out that that dividend payout had a positive relationship with cash flow and a negative relationship on sales growth and market to book value. She also found out that there was a positive

relationships between dividend payout and cash flow and a negative relationship between the dividend payout and sales growth and market to book value.

Ndirangu (2014) studied the effect of dividend policy on future financial performance of firms listed at the NSE over a period of five years (2008 to 2013). Secondary data was obtained from the annual reports submitted to the NSE and CMA. All the firms that had continually operated between 2009 and 2013 were included. The study employed correlation research design, a cross sectional study was also used to determine the interrelationship between the variables. He found out that there exists a positive relationship between current dividend payout and future earnings growth.

Mutisya (2014) studied the relationship between dividend payout and financial performance of firms listed at the NSE over a period of five years (2009 to 2013). A census survey of 61firms listed and the NSE was conducted based on the availability of information. Financial statements and other annual reports of listed firms were obtained from the CMA website. Multiple regression analysis was used to determine the relationship between dividend payout and firms performance. The results showed a positive and significant relationship between return on assets and dividend payout. He also found out that firm size tend to have a significant positive impact on firms dividend payout ratio since larger firms have better access to the capital markets and also can easily raise funds at lower a costs.

Njoroge (2001) study on the relationship between dividend policies and return on assets and return on equity for companies listed at the Nairobi Stock Exchange in Kenya found that there is a positive correlation between dividends paid and both return on equity and return on Investment. Njiru (2003) study on the determinants of dividend payment ascertained that few SACCOs in Kenya do not have dividend policies and hence dividend payments are left to the members of the committee to decide based on previous years rate of dividend payout.

2.5 Summary of Literature Review

The dividend enigma has not only been an enduring issue in finance, it also remains unresolved. Almost three decades ago Black (1976) described it as a "puzzle", and

since then an enormous amount of research has occurred trying to solve the dividend puzzle. Allen, Bernardo and Welch (2000, p.2499) summarized the current consensus view when they concluded "Although a number of theories have been put forward in the literature to explain their pervasive presence, dividends remain one of the thorniest puzzles in corporate finance" The dilemma goes on and on since various schools of thought conflict in their interpretation and believe on whether investors prefer capital gains or cash dividends. It is in this case that we realize that empirical studies fail to provide conclusive evidence in support of the intuitively appealing dividend relevance argument. (Gordon, 1963).

However, dividend policy backs payment of dividends by firms to its investors, and whether a firm pays no or low dividends, it should not be penalized for doing so, because investors have the discretion of accepting the dividends or wait for future capital gains. Similarly, a firm that pays high dividends should not have a lower value because of choosing to issue its investors with higher dividends. This argument assumes that there are enough investors in each dividend clientele to allow firms to be fairly valued, no matter what their dividend policy is. From the studies and research, it is clear that dividend policy is among the factors that affect firm's financial performance.

Literatures from past studies reveal that most researchers have concentrated in the relationship between dividend payout and firm performance and only looked at dividend payout ratio as the only factor of dividend policy. In Kenya, few studies have analyzed the dividend behavior of firms and more so how the earnings distribution behavior influences future performance of the firms. This research looks at the issue from not only the earnings distribution point of view but also on the forms and timing of dividend payments.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter focuses on the research design, population of interest, the basis of sample selection, data collection method, sources of data and data analysis.

3.2 Research Design

A research design is the design of study that defines the study type. It is a systematic arrangement of the measures, factors and the tools to be applied in the collection and analysis of the obtained data in order to achieve the objectives of the study in the most efficient and effective way. Kothari (2004) concluded that a research design directs the researcher by offering him with guidelines on how to collect, analyze and interpret the data in a coherent manner.

The study employed descriptive research design. Cooper and Schindler (2011) defines descriptive research design as a design used to describe behavior or characteristic of a population being studied. The design fits the proposed study which aimed to determine the relationships between variables that is dividend policy, firm size, and leverage. Further, the design is dependable, valid and generalizable in this kind of a research in that it is good for the purpose of data collection and analysis.

3.3 Population

The population consisted of all the firms listed in the Nairobi Securities exchange as at December 2014. As at December 2014, there were 64 firms listed at the NSE (Appendix 1). The listed firms are classified under different segments namely agricultural, automobiles and accessories, banking, commercial and services, construction and allied, energy and petroleum, insurance, investment, Investment services, manufacturing and allied, telecommunication & technology, and growth enterprise market segments (GEMS). This formed the target population.

3.4 Sample Design

The population sample was the 20 firms listed at the NSE 20 share Index as at December 2014 (Appendix 2). The NSE 20 share index measures the performance of 20-blue chip companies with strong fundamentals and which have consistently returned positive financial results. Financial reports were analyzed for a period of five years from 2010 to 2014 for the 20 listed firms. These firms are fairly representative of the different sectors of the economy and thus are a reasonable sample.

3.5 Data Collection

The study used secondary data. Audited financial reports of the 20 firms for the period 2010 to 2014 were obtained from the NSE. From the financial statements, the information collected included the net income levels for each of the firms to calculate the financial performance (dependent variable), dividends paid, total assets, total debt (both short term and long term) and total equity of the firm to calculate the independent variables. Additional data like the form and the number of dividend payments per year per firm were also obtained from the NSE. The five year period was deemed long enough to address any events which could affect the trends and relationships in a particular year.

3.6 Data Analysis

The analysis was aimed at establishing the effect of dividend policy on financial performance of firms listed at the NSE over the five-year period. Regression analysis was performed on the data to test any effect of dividend policy (independent variable) on a firm's financial performance (Dependent variable).

To identify the determinants of firm performance, the model specified in the equation below was estimated. The variables used include dividend payout ratio, form of dividend payment, timing of dividend payments, size of the firm and leverage. A multivariate regression equation was used as follows;

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \mu$

Where

Y = Firm performance measured by Return on Assets

X_1 = Dividend payout Ratio, a measure of dividend payout

X_2 = Form of dividend payment

X_3 = Timing of dividend payments

X_4 = Size of the firm

X_5 - Leverage

B_0, β_1, β_2, β_3, β_4 and β_5 are coefficients of regression equation

μ = Error term

All variables will be calculated using the book values as follows;

DPR = $\dfrac{\text{Common dividends}}{\text{Net income after tax}}$

Forms of dividends (FORM) – Dummy variables for form of dividend for firm i at period t will be used.

Timing of Payments (TIME) – Dummy variables for timing of dividends for firm i at period t will be used.

SIZE – Log of total assets

D/E Ratio = $\dfrac{\text{Debt (Long term and short term Debt)}}{\text{Equity}}$

A test of significance for each independent variable was conducted using T-test analysis at 95% confidence level. This test was found to be appropriate because the sample is less than thirty.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This Chapter presents the research findings on the effect of dividend policy and financial performance of listed firms at the NSE. The study was conducted on twenty firms listed at the NSE 20 share Index where secondary data from year 2010 to 2014 was used. Linear regression was done to try and bring out clearly the effect of dividend policy on the financial performance of firms using the following independent variables; dividend payout ratio, form of dividend payments, timing of dividend payments, firm size, and leverage.

4.2 Descriptive Statistics

Table 4.1: Descriptive Statistics

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
	Statistic	Statistic	Statistic	Statistic	Statistic
Firm Performance (ROA)	100	-.19	.24	.0738	.07446
DPR (%)	100	-137.81	136.00	35.1642	36.33058
Form of Div Payments	100	.00	2.00	.9900	.38912
Timing of Payments	100	.00	3.00	1.2600	.62957
Total Assets(Kes Billion)	100	.17	490.34	97.0445	103.39950
Leverage	100	.05	8.25	2.8839	2.32954
Valid N (listwise)	100				

The descriptive results in table 4.1 above give further details of the study. The mean, minimum, maximum and the standard deviation are given. The average firm performance over the 5 years was 0.738. The maximum firm performance observed was 0.24 and the minimum -0.19. The average dividend pay-out ratio over the 5 years was 35.16% while the maximum was 136% and the minimum -137.81%. The average number of form of dividend payments was 0.99 while the maximum was 2 and the minimum 0. The average number of times of dividend payments was 1.26 while the maximum was 3 and the minimum 0. The average value for the total assets over the 5 years was Ksh 97.0445 billion , while the maximum total assets was Ksh 490.34 billion and the minimum was Ksh 0.17 billion. The

average leverage (Debt/Equity ratio) over the 5 year period was 2.88 while the maximum was 8.25 and the minimum was 0.05

4.3 Correlation Analysis

Correlation analysis is a statistical tool generally used to describe the degree to which one variable is related to another (Mugenda & Mugenda, 2003). The relationship, if any, is usually assumed to be a linear one. Correlation analysis was conducted to reveal the direction of association of the variables. The correlation analysis results are presented in table 4.2 below.

Table 4.2: Correlation Results

Correlations

		Firm Perf - ROA	DPR	Form_of_Div _Payment	Timing_of _Payment	Log_Total _Assets	Leverage
Firm_Perf – ROA	Pearson Correlation	1	.395**	.169	.206*	-.321**	-.346**
	Sig. (2-tailed)		.000	.093	.040	.001	.000
	N	100	100	100	100	100	100
DPR	Pearson Correlation	.395**	1	.117	.231*	-.102	.087
	Sig. (2-tailed)	.000		.248	.021	.314	.387
	N	100	100	100	100	100	100
Form	Pearson Correlation	.169	.117	1	.670**	.046	.059
	Sig. (2-tailed)	.093	.248		.000	.652	.563
	N	100	100	100	100	100	100
Timing	Pearson Correlation	.206*	.231*	.670**	1	-.128	.105
	Sig. (2-tailed)	.040	.021	.000		.205	.298
	N	100	100	100	100	100	100
Total Assets	Pearson Correlation	-.321**	-.102	.046	-.128	1	.522**
	Sig. (2-tailed)	.001	.314	.652	.205		.000
	N	100	100	100	100	100	100

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

Results in table 4.2 above reveal that the correlation between firm performance and dividend pay-out ratio is positive and significant (R=0.395, p value=0.000). This implies that an improved firm performance is associated with an increase in dividend pay-out ratio

and vice versa. Findings show that correlation between firm performance and form of dividend payments is positive and significant (R=0.169, p value=0.093). This implies that the form in which dividends are paid out has a significant positive effect on firm performance. Study findings also show that correlation between firm performance and timing of dividend payments is positive and significant (R=0.206, p value=0.040). This implies that the number of dividend payments per year has a significant positive effect on firm performance. The higher the number the higher the firm performance and vice versa. Findings also show that correlation between firm performance and log of total assets (firm size) is negative and insignificant (R=-0.321, p value=0.001). This implies that an increase in log of total assets is associated with a decrease in firm performance and a decrease in log of total assets is associated with an increase in firm performance. Study findings also show that correlation between firm performance and leverage is negative and insignificant (R=-0.346, p value=0.000). This implies that an increase in leverage is associated with a decrease in firm performance and a decrease in leverage is associated with an increase in firm performance.

4.4 Regression Analysis and Hypotheses Testing

Regression analysis results presented in table 4.3 below indicate a coefficient of determination (R squared) of 0.334. An R square of 0.334 indicates that 33.4% of the variation in firm's financial performance is explained by the independent variables (dividend pay-out ratio, form of dividend payments, timing of dividend payments, size of the firm and leverage). 66.6% of the variations in value of shares are explained by other factors not included in the model.

Table 4.3: Goodness of Fit (Coefficient of Determination)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.578a	.334	.298	.06237

a. Predictors: (Constant), Leverage, Form_of_Div_Payment, DPR, Log_Total_Assets, Timing_of_Payment

Table 4. 4: Overall Model Significance

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.183	5	.037	9.425	.000^b
	Residual	.366	94	.004		
	Total	.549	99			

a. Dependent Variable: Firm_Performance_ROA
b. Predictors: (Constant), Leverage, Form_of_Div_Payment, DPR, Log_Total_Assets, Timing_of_Payment

Table 4.4 above presents the overall model significance. The results indicate that the overall model was significant. The reported F statistic of 9.425 in table 4.4 was larger than the F critical (F tabulated). The reported p value (p=000) was lower than the critical p value of 0.05. The findings imply that the independent variables are good joint predictors of firm's financial performance.

Table 4.5: Regression Coefficients

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	.055	.019		2.863	.005	.017	.093
	DPR	.001	.000	.386	4.411	.000	.000	.001
	Form	.019	.022	.098	.843	.401	-.025	.063
	Timing	.009	.014	.075	.615	.540	-.020	.037
	Log_Total_Assets	-7.086E-5	.000	-.098	-.941	.349	.000	.000
	Leverage	-.011	.003	-.342	-3.331	.001	-.017	-.004

a. Dependent Variable: Firm_Performance_ROA

The regression model was as follows;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \mu$$

Where

Y = Firm performance measured by Return on Assets

X_1 = Dividend payout Ratio, a measure of dividend payout

X_2 = Form of dividend payment

X_3 = Timing of dividend payments

X_4 = Size of the firm

X_5 - Leverage

B_0, β_1, β_2, β_3, β_4 and β_5 are coefficients of regression equation

μ = Error term

The established regression equation therefore becomes;

$Y = 0.055 + 0.001X_1 + 0.019 X_2 + 0.009 X_3 - 0.00007806 X_4 - 0.011 X_5$

Where:

Constant = 0.055, shows that if PDR, Form, Timing Log Total assets and Debt/Equity ratio all rated as zero, financial performance will be 0.055

X1 = 0.001, shows that one unit Dividend Payout Ratio results in 0.001 units increase in financial performance

X2 = 0.019, shows that one unit form of dividend payment results in 0.019 units increase in financial performance

X3 = 0.009, shows that one unit timing of dividend payment results in 0.009 units increase in Financial performance

X4 = –0.00007806, shows that one unit log of total assets results in 0.0007806 units decrease in financial performance

X5 = –0.011, shows that one unit debt/equity ratio results in 0.011 units decrease in financial performance

4.5 Discussion of Research Findings

The objective of this study was to establish the effect of dividend policy on the financial performance of firms listed at the NSE. Descriptive statistics showed that firm's financial performance (measured as ROA) had a mean of 0.0738 and a standard deviation of

0.07446. This means that on average a unit of assets generates 0.0738 units of income. Dividend payout ratio (measured as common dividends/ Net Income) had a mean of 35.16%, a maximum of 136% and a minimum of -137.81%. This can be interpreted to mean that on average firms pay 35.16% of their net profits as dividends and the remainder of 64.86% is retained for future growth needs of the firm. A maximum of 136% means that the company dipped into its cash reserves to pay dividends and a minimum of -137.81% simply means that the firm incurred losses but still went ahead to pay dividends from it's cash reserves. Form of dividend payments had a mean of 0.99, a maximum of 2 and a minimum of 0. This means that the firms on average had atleast one form of dividend payment and the company that had the highest form of dividend payment paid in cash and bonus shares. 0 means that the company did not pay any dividend in that year. Timing of dividend payments had a mean of 1.26, a maximum of 3 and a minimum of 0. This means that on average each firm had more than one dividend payment in the year while some firms paid as much as 3times (interim, special, final).

The firm's size, determined as the natural logarithm of total assets had a mean of 97.0445billion and a maximum of 490.34 billion. Leverage, measured by total debt divided by total capital had a mean of 0.2.8839, a maximum of 8.25 and a minimum of 0.05 meaning most firms finance their operations with debt.

The findings of the correlation coefficient results imply that the independent variables (Div payout, form of dividend payments and timing of dividend payments) had a positive effect on the dependent variable (Financial performance measured by Return on Assets) while independent variables (Firm Size, and Leverage) had a negative effect on financial performance. Coefficient of determination results show that the five independent variables account for 33.4% (R Square, 0.334) of the variations in the dependent variable, ROA.

Regression analysis with a Constant of 0.055 shows that if PDR, Form, Timing Log Total assets and Debt/Equity ratio all rated as zero, financial performance of the firms will be 0.055. Dividend Payout Ratio, X1= 0.001, shows that one unit change in Dividend Payout Ratio results in 0.001 units increase in financial performance. Form of dividend payment, X2= 0.019, shows that one unit change of form of dividend payment results in 0.019 units increase in financial performance. Timing of dividend payments, X3= 0.009, shows that

one unit change in timing of dividend payment results in 0.009 units increase in Financial performance. Log of total assets, X4= –0.00007806, shows that one unit change of log of total assets results in 0.0007806 units decrease in financial performance. Leverage, X5= –0.011, shows that one unit change in debt/equity ratio results in 0.011 units decrease in financial performance.

In summary, the study found that dividend payout ratio, form and timing of dividend payments had a significant positive effect on the financial performance of the firm while firm size (log of total assets) and leverage had a negative effect on financial performance of the firm. The study revealed that the financial performance variables namely dividend payout ratio, form and timing of dividend payments firm size and leverage were statistically significant in influencing the financial performance of firms either positively or negatively. The findings concur with Gordon and Lintner (2012) who advanced a theory that shows the relationship between a firm's payment of dividends and its market value. They argued that there is in fact a direct relationship between a firm's dividend policy and its market value. This is equally supported by the bird in hand theory (Gordon, 1963).

This was also reported by Amidu and Abor (2006) who studied the determinants of dividend payout ratios of listed firms in Ghana for a six year period 1998-2003 and found that there exists a significant relationship between dividend payout ratio and profitability. The findings also concur with Baker et al (2001) who studied the relationship between dividend policy and firm value on NASDAQ firms that pay cash dividends and found out that most firms believed that dividend policy affects the value of the firm.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This Chapter provides a summary of the findings of this study. The first section provides a summary of the findings. The other section provides the conclusions of the study, the limitations of the study, suggestions for further research and recommendations in that order.

5.2 Summary of Findings

In determining the effect of dividend policy on the financial performance of firms listed at the NSE, the study first found it necessary to evaluate the following five financial performance variables dividend payout ratio, form of dividend payments, timing of dividend payments, firm size and leverage. From the data obtained, various variables were extracted and computed to enable adequate analysis to be carried out. From the result of the analysis, the study established the following regression;

$$Y = 5.5 + 0.001X_1 + 0.019 X_2 + 0.009 X_3 - 0.00007806 X_4 - 0.011 X_5$$

From the above regression equation it was revealed that dividend policy i.e; dividend payout ratio, form of dividend payments and timing of dividend payments had a significant positive effect on financial performance. Other variables namely firm size and leverage had a negative effect on financial performance of firms listed at the NSE hence a negative correlation coefficient. It was therefore concluded that the dividend policy of listed companies had a significant positive relationship with the firm's financial performance measured by ROA. The significance and the positive coefficient of the variable dividend policy indicate that when a listed firm has a policy to pay dividend it influences its level of financial performance. This is in line with the information content of dividend or signaling theory by Bhattacharya (1979) and Miller and Rock (1985). The positive coefficient could mean that if a firm is able to have a stable dividend policy then it increases its retained earnings which affects a firm's internally generated financing.

5.3 Conclusion

The objective of the study was to determine the effect of dividend policy on the financial performance of firms using variables DPR, form of dividend payments, timing of dividend payments, firm size and leverage. The finding of the study confirmed that DPR, form and timing of dividend payments had a positive effect on financial performance of firms while firm size and leverage had a negative insignificant effect on financial performance.

The study concluded that the major factors that affect financial performance of listed firms are; DPR, form of dividend payments and timing of dividend payments. Other factors such as total assets and leverage have no significant effect on the financial performance of a firm. Therefore, firms should put in place effective strategies to ensure a high score on dividend stability which will contribute to better performance in the future.

5.4 Recommendations

The study makes a number of recommendations in light of the study findings. Based on the results from the study, the study recommends that all firms should plan on setting a corporate dividend policy in place that is efficient and reliable since this will affect their financial performance variables either positively or negatively. The study further recommends that cash flow/ liquidity ratios remain manageable under the financial period to boost their gains for positive financial performance outcomes.

Managers should take keen interest on financial performance variables namely, cash flow, sales growth and market to book value since they have a significant effect/impact on dividend payout. This study can be repeated with a wider population of study by including the Banks and Insurance Companies across all countries in East Africa, African and European Continents. This paper further recommends that this study can be done on different economies to make the findings relevant to all various countries with different economic levels.

5.5 Limitations of the Study

The study mainly concentrated on secondary data obtained from the NSE 2014 handbook which may not always be reliable. This is because secondary data is prone to errors, might be out of date or may be biased.

The study was restricted to firms listed at NSE and concentrated on the firms listed at the NSE 20 Share Index. The trends and relationships between the study variables for unquoted firms might be different from the ones for the sample used in the study. A sample of 20 companies is too small to generalize the results given that there are many more firms operating in the country. The study was limited to 5 years which is a short period to observe changes in variables over time.

Dividend pay-out ratios are computed from earnings per share which being an accounting figure could be exposed to possibility of manipulation by the firms in order to evade payment of taxes or to influence the performance of the firm.

5.6 Suggestions for Further Research

Since this study was done on firms listed in NSE only, it is difficult to generalize the findings to other firms in Kenya. Studies should be done to determine the effect of a firm's dividend policy on the financial performance of other firms outside NSE so as to be able to generalize the findings.

From the findings of the study, Dividend payout ratio, form of dividend payments, timing of dividend payments, firm size and leverage explain only 33.4% firm financial performance leaving 66.6% unexplained. The study therefore suggests that other studies on the same area be done to determine variables that explain the 66.6%.

There is also need for further studies to carry out similar study for a longer time period. This study only took into consideration of five years from 2010 – 2014. A study of 10 – 15 years would be recommended.

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APPENDICES

Appendix 1 – Companies listed at the NSE as at December 2014

AGRICULTURAL
Eaagads Ltd
Kakuzi Ltd
Kapchorua Tea Co. Ltd
The Limuru Tea Co. Ltd
Rea Vipingo Plantations Ltd
Sasini Ltd
Williamson Tea Kenya Ltd
AUTOMOBILES & ACCESSORIES
Car & General (K) Ltd
Marshalls (E.A.) Ltd
Sameer Africa Ltd
BANKING
Barclays Bank of Kenya Ltd
CFC Stanbic of Kenya Holdings Ltd
Diamond Trust Bank Kenya Ltd
Equity Bank Ltd
Housing Finance Co.Kenya Ltd
I&M Holdings Ltd
Kenya Commercial Bank Ltd
National Bank of Kenya Ltd
NIC Bank Ltd
Standard Chartered Bank Kenya Ltd
The Co-operative Bank of Kenya Ltd
COMMERCIAL AND SERVICES
Express Kenya Ltd
Hutchings Biemer Ltd
Kenya Airways Ltd

Longhorn Kenya Ltd
Nation Media Group Ltd
Scangroup Ltd
Standard Group Ltd
TPS Eastern Africa Ltd
Uchumi Supermarket Ltd
CONSTRUCTION & ALLIED
ARM Cement Ltd
Bamburi Cement Ltd
Crown Paints Kenya Ltd
E.A.Cables Ltd
E.A.Portland Cement Co. Ltd
ENERGY & PETROLEUM
KenGen Co. Ltd
KenolKobil Ltd
Kenya Power & Lighting Co Ltd
Total Kenya Ltd
Umeme Ltd
INSURANCE
British-American Investments Co.(Kenya) Ltd
CIC Insurance Group Ltd
Jubilee Holdings Ltd
Kenya Re Insurance Corporation Ltd
Liberty Kenya Holdings Ltd
Pan Africa Insurance Holdings Ltd
INVESTMENT
Centum Investment Co Ltd
Olympia Capital Holdings Ltd
Trans-Century Ltd

INVESTMENT SERVICES	
Nairobi Securities Exchange Ltd Ord 4.00	
MANUFACTURING & ALLIED	
A.Baumann & Co Ltd	
B.O.C Kenya Ltd	
British American Tobacco Kenya Ltd	
Carbacid Investments Ltd	
East African Breweries Ltd	
Eveready East Africa Ltd	
Kenya Orchards Ltd	
Mumias Sugar Co. Ltd	
Unga Group Ltd	
TELECOMMUNICATION & TECHNOLOGY	
Safaricom Ltd	
GROWTH ENTERPRISE MARKET SEGMENT (GEMS)	
Flame Tree Group Holdings Ltd Ord 0.825	
Home Afrika Ltd	

Source: NSE website (www.nse.co.ke)

Appendix 2 – List of NSE 20 share Index

	Company	Segment
1	Sasini Ltd	AGRICULTURAL
2	Barclays Bank of Kenya Ltd	BANKING
3	CFC Stanbic of Kenya Holdings Ltd	BANKING
4	Equity Bank Ltd	BANKING
5	Kenya Commercial Bank Ltd	BANKING
6	Standard Chartered Bank Kenya Ltd	BANKING
7	The Co-operative Bank of Kenya Ltd	BANKING
8	Kenya Airways Ltd	COMMERCIAL AND SERVICES
9	Nation Media Group Ltd	COMMERCIAL AND SERVICES
10	Scangroup Ltd	COMMERCIAL AND SERVICES
11	ARM Cement Ltd	CONSTRUCTION & ALLIED
12	Bamburi Cement Ltd	CONSTRUCTION & ALLIED
13	KenGen Co. Ltd	ENERGY & PETROLEUM
14	KenolKobil Ltd	ENERGY & PETROLEUM
15	Kenya Power & Lighting Co Ltd	ENERGY & PETROLEUM
16	British-American Investments Co.(Kenya) Ltd	INSURANCE
17	Centum Investment Co Ltd	INVESTMENT
18	British American Tobacco Kenya Ltd	MANUFACTURING & ALLIED
19	East African Breweries Ltd	MANUFACTURING & ALLIED
20	Safaricom Ltd	TELECOMMUNICATION & TECHNOLOGY

Source: NSE website (www.nse.co.ke)

Appendix 3 – Data Summary

	Company name	Year	Y (ROA)	X1 (DPR %)	X2 (Timing)	X3 (Form)	X4(Ln Assets-Billions)	X5 (D/E)
					VARIABLES			
1	ARM Cement Ltd	2010	0.04	16.12	1.00	1.00	16.56	2.35
		2011	0.05	17.22	1.00	1.00	20.52	2.42
		2012	0.05	19.88	1.00	1.00	26.95	2.84
		2013	0.06	22.03	1.00	1.00	29.71	2.66
		2014	0.06	19.90	1.00	1.00	36.91	2.92
2	Bamburi Cement Ltd	2010	0.16	58.22	1.00	2.00	33.31	0.65
		2011	0.17	62.57	1.00	1.00	33.50	0.52
		2012	0.11	78.06	1.00	2.00	43.04	0.73
		2013	0.09	19.76	1.00	2.00	43.02	0.49
		2014	0.10	55.80	1.00	2.00	37.99	0.53
3	Barclays Bank of Kenya Ltd	2010	0.06	136.00	1.00	2.00	0.17	5.62
		2011	0.05	101.00	1.00	1.00	0.17	6.22
		2012	0.05	62.15	1.00	2.00	0.18	6.02
		2013	0.04	49.89	1.00	2.00	0.21	5.88
		2014	0.04	64.77	1.00	2.00	0.23	4.39
4	BAT Kenya Ltd	2010	0.16	99.02	1.00	2.00	11.12	1.17
		2011	0.23	98.46	1.00	1.00	13.75	1.14
		2012	0.22	99.36	1.00	2.00	15.18	1.14
		2013	0.22	99.36	1.00	2.00	16.99	1.24
		2014	0.23	92.30	1.00	1.00	18.25	1.25
5	BRITAM (Kenya) Ltd	2010	0.11	1.93	1.00	1.00	25.36	1.40
		2011	-0.08	-1.45	1.00	1.00	25.64	2.00
		2012	0.07	1.87	1.00	1.00	35.82	1.87
		2013	0.07	1.88	1.00	1.00	35.82	1.87
		2014	0.05	2.04	1.00	1.00	46.90	2.18
6	Centum Investment Co Ltd	2010	0.13	0.00	1.00	1.00	8.26	0.05
		2011	0.19	0.00	1.00	1.00	12.30	0.27
		2012	0.10	0.00	1.00	0.00	11.57	0.15
		2013	0.05	0.00	1.00	0.00	18.96	0.39
		2014	0.04	0.00	1.00	0.00	29.60	0.48
7	CFC Stanbic of Kenya Holdings Ltd	2010	0.01	20.61	1.00	0.00	140.08	5.42
		2011	0.01	0.00	1.00	2.00	150.17	6.77
		2012	0.07	7.38	1.00	0.00	43.21	4.26
		2013	0.03	16.58	1.00	1.00	180.51	4.57
		2014	0.03	36.15	1.00	2.00	181.00	3.91
8	East African Breweries Ltd	2010	0.23	78.29	1.00	1.00	38.42	0.85
		2011	0.18	76.76	1.00	1.00	49.71	1.33
		2012	0.21	61.86	1.00	2.00	54.17	7.56
		2013	0.11	66.68	1.00	2.00	57.72	7.40

		2014	0.11	63.41	1.00	2.00	62.87	5.97
9	Equity Bank Ltd	**2010**	0.24	8.63	1.00	1.00	143.02	4.78
		2011	0.05	28.69	1.00	1.00	196.29	5.40
		2012	0.05	38.31	1.00	1.00	243.17	5.32
		2013	0.05	41.83	1.00	1.00	277.73	5.00
		2014	0.05	38.86	1.00	1.00	344.57	4.93
10	KenGen Co. Ltd	**2010**	0.02	33.45	1.00	1.00	150.57	1.13
		2011	0.01	52.84	1.00	1.00	160.99	1.32
		2012	0.02	46.88	1.00	1.00	163.14	1.33
		2013	0.03	2.51	1.00	1.00	188.67	1.55
		2014	0.01	31.11	1.00	1.00	250.21	2.26
11	KenolKobil Ltd	**2010**	0.06	39.96	1.00	1.00	30.37	1.71
		2011	0.07	44.96	1.00	1.00	45.97	2.95
		2012	-0.19	0.00	1.00	1.00	32.68	4.07
		2013	0.02	26.36	1.00	1.00	28.12	3.22
		2014	0.05	26.97	1.00	1.00	23.92	2.26
12	Kenya Airways Ltd	**2010**	0.03	22.68	1.00	1.00	73.26	2.68
		2011	0.04	19.57	1.00	1.00	78.74	2.41
		2012	0.02	22.52	1.00	1.00	77.43	2.37
		2013	-0.06	0.00	1.00	0.00	122.70	2.94
		2014	-0.02	0.00	1.00	0.00	148.66	4.27
13	Kenya Commercial Bank Ltd	**2010**	0.03	5.75	1.00	1.00	251.36	5.99
		2011	0.03	50.02	1.00	1.00	330.72	7.37
		2012	0.03	46.25	1.00	1.00	367.38	5.89
		2013	0.03	48.03	1.00	1.00	390.85	5.17
		2014	0.03	3.81	1.00	1.00	490.34	5.48
14	Kenya Power & Lighting Co Ltd	**2010**	0.04	17.03	1.00	2.00	85.03	5.62
		2011	0.04	1.85	1.00	3.00	119.88	2.02
		2012	0.03	21.13	1.00	2.00	134.13	1.40
		2013	0.02	0.00	1.00	0.00	184.21	1.91
		2014	0.03	0.00	1.00	2.00	220.11	2.02
15	Nation Media Group Ltd	**2010**	0.19	8.17	1.00	2.00	7.98	0.49
		2011	0.14	104.46	1.00	2.00	8.82	0.46
		2012	0.24	62.59	1.00	1.00	10.68	0.53
		2013	0.22	62.02	1.00	2.00	11.44	0.40
		2014	0.21	19.15	1.00	2.00	11.94	0.37
16	Safaricom Ltd	**2010**	0.15	52.81	1.00	1.00	104.12	0.66
		2011	0.11	6.08	1.00	1.00	116.85	0.68
		2012	0.10	69.69	1.00	1.00	121.90	0.68
		2013	0.14	7.07	1.00	1.00	128.86	0.61
		2014	0.17	81.81	1.00	1.00	134.60	0.48
17	Sasini Ltd	**2010**	0.11	16.38	1.00	2.00	9.06	0.43
		2011	0.05	13.11	1.00	2.00	9.46	0.44
		2012	-0.01	-137.81	1.00	2.00	8.92	0.42
		2013	0.01	62.18	1.00	1.00	9.05	0.44
		2014	0.00	125.52	1.00	1.00	14.93	0.26

18	Scangroup Ltd	**2010**	0.08	25.63	1.00	1.00	8.01	1.46
		2011	0.11	21.88	1.00	1.00	8.49	1.21
		2012	0.09	26.62	1.00	2.00	8.35	1.02
		2013	0.07	18.23	1.00	1.00	12.74	0.58
		2014	0.05	30.29	1.00	1.00	13.28	0.58
19	Standard Chartered Bank Kenya Ltd	**2010**	0.04	72.66	1.00	3.00	142.75	6.87
		2011	0.04	57.05	1.00	2.00	164.05	8.25
		2012	0.04	46.99	1.00	1.00	195.35	6.16
		2013	0.04	49.29	1.00	1.00	220.39	5.84
		2014	0.05	51.19	1.00	1.00	222.50	4.95
20	The Co-operative Bank of Kenya Ltd	**2010**	0.03	31.00	1.00	1.00	154.34	6.72
		2011	0.03	26.00	1.00	1.00	168.31	7.03
		2012	0.04	27.00	1.00	2.00	200.59	5.83
		2013	0.04	23.00	1.00	1.00	231.22	5.23
		2014	0.03	30.50	1.00	2.00	285.40	5.66