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

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DECLARATION

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

Signed.....Date……

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

Signed……..……Date…….

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DEDICATION

I dedicate this paper to my family and friends whose inspiration and sustenance provided me with motivational foundation I required in finalizing this particular task.

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LIST OF ABBREVIATIONS AND ACRONYMS

AIMS	Alternative Investment Market Segment
CFOs	Chief Financial Officers
CMA	Capital Markets Authority
DPR	Dividend Payout Ratio
DPS	Dividend Per Share
EPS	Earnings Per Share
FISMS	Fixed Income Securities Market Segment
FIXA	Fixed Assets
ICPAK	Institute of Certified Public Accountants of Kenya
KNBS	Kenya National Bureau of Statistics
MIMS	Main Investment Market Segment
MM	Miller and Modigliani
NSE	Nairobi Securities Exchange
NYSE	New York Stock Exchange
ROA	Return on Assets
ROE	Return on Equity
SACCOS	Savings &Credit Co-operative Societies
SDDs	Specially Designated Dividends
SPSS	Statistical Package for Social Sciences

ABSTRACT

One of the most important decisions a company is faced with is what to do with its surplus; it can either distribute the earnings to the investors as dividends or retain it in the business as an addition to the shareholders' equity. Managers must not just consider the amount of the organization's income is required for investing but correspondingly the likely impact of their choices on the budgetary execution of the organization. The target of the research was to ascertain the impact of dividend policy on firm financial performance on firms listed on the NSE. The study looked at various components of dividend policy, namely; dividend pay-out ratio, form and timing of dividends and dividend per share. Firm financial performance was measured by return on assets. Size of the firm and leverage were used as control variables. The study period was a ten-year term (2006-2015). The study entailed the use of a descriptive research design. The populace was all the organizations listed on the NSE. Information was gathered for forty-two firms listed on the NSE, which were found to have comprehensive information for the whole ten years under study. The study found that correlation between firm performance and dividend payout-ratio was positive and significant and that increase in firm financial performance is associated with an increase in dividend payout-ratio and the other way around. The correlation of firm financial performance and form of dividend payment was also found positive and significant indicating that the form in which dividends are paid out has a positive effect on firm financial performance. The study also concludes that timing of dividend payments is positive and significant in firm financial performance and that the number of times which dividends are paid out in a year has a positive effect on firm financial performance. The study also concludes that the correlation between firm financial performance and dividend per share was positive and significant and that higher dividends per share are associated with higher firm financial performance. The study also found that the correlation between size of the firm and firm financial performance is positive and significant and that an increase in firm size is associated with an increase in financial performance. The correlation between leverage and firm financial performance is negative and an increase in leverage ratio is associated with a decrease in firm financial performance.

CHAPTER ONE: INTRODUCTION

1.1. Background of the Study

As a company earns profits, one of the most important decisions it is faced with is what to do with its surplus; it can either distribute the earnings to the investors as dividends or retain it in the business as an addition to the shareholders' equity. The company may also decide to apportion the surplus to both the retained earnings and to the shareholders as dividends. Weston and Bringham (2006) stated that the earnings distribution strategy is the one that maximizes the market value of the firms' outstanding shares. Earnings are the free cash flows available for distribution to investors after all expense and taxes have been paid. Investors who receive dividends can re-invest or spend the cash. Firms that wish to raise more capital can do so by raising equity or debt from the capital market. Priya and Nimalathasan (2013) stated that in reality, profit strategy is all the more ordinarily an instrument of riches conveyance to shareholders than it is an instrument of riches creation to partners.

Upgrading shareholders' riches and benefit making are among the significant targets of a firm (Pandey, 2005). Managers ought to concentrate on the most proficient method to augment the abundance of shareholders for whom the firm is being overseen. Chiefs must not just consider the amount of the organization's income is required for speculation additionally the conceivable impact of their choices on the monetary execution of the organization (Bishop et al., 2000). Dividend policy is about how much it matters to investors whether they get return on their venture now as profits or later as capital appreciation. Modigliani and Miller (1961) show that a profit approach is superfluous in deciding the estimation of the firm. In any case, they built up their theory expecting the

ideal substitutability in the financial specialists' mind between current profit and future profits.

1.1.1. Dividend Policy

Dividend policy remains a standout amongst the most critical budgetary strategies from the perspective of the organization, as well as from that of the shareholders, the buyers, representatives, administrative bodies and the Government. For a company, the policy is pivotal, particularly around which financial policies rotate (Alii et al., 1993). Tajirian (1997) states that dividends are the distribution of firms' value to shareholders. The Kenyan law dictates that dividends must be paid from benefits and not from an enterprise's capital. The law stipulates that profit installment may not surpass the enterprise's held income as appeared on its announcement of money related position.

Dividend policy is the arrangement of rules an organization uses to choose the amount of its income will be circulated to shareholders (Nissim & Ziv, 2001). Lintner (1956) did a research on how firms should formulate their dividend decisions. This research was further summarized by Marsh and Merton (1987) to conclude that dividends payout are pegged to current earnings and target level of dividends. Dividend policy ratios measure how much a company pay out in dividends relative to its earnings and market value of its shares. These ratios give an indication of the dividend policy of the company. Dividend policies vary across various companies and countries. More mature companies will tend to have higher dividend payout as they have the financial capabilities to pay out more to shareholders. Companies pursuing more growth will tend to pay out lower dividends or none so as to retain the earnings for this growth (Brenan, 1970).

1.1.2. Financial Performance

Financial performance is a subjective measure of the responsibility of a substance for the consequences of its approaches, operations and exercises evaluated for a recognized period in budgetary terms (Van Horne et al., 2008). Measures of budgetary execution incorporate measures of liquidity, dissolvability, gainfulness and money related proficiency (Solomon, 1963). Amidu and Abor (2006) depicted methods for measuring money related execution. These incorporate; benefit, income, deals development and market to book value. Evaluating the budgetary execution of a business permits chiefs to judge the consequences of business methodologies and exercises in goal money related terms. Development is by and large observed as an indication of achievement, if it brings about changes in budgetary execution (Brealy, Myers and Marcus, 2007)

Three benefit measures that are all around acknowledged for their esteem to administration are profit for resources, return on value and working overall revenue (Pandey, 2002). ROA measures gainfulness for all supporters of capital; it is the capacity of an association's administration to produce salary by using organization resources available to them (Bodie, Kane and Marcus, 2011). The ROE measures the rate of profit for the proprietor's value utilized in the firm business. It shows the rate of give back that the administration has earned on the capital gave by shareholders in the wake of bookkeeping to installments to all other capital providers (Brown & Reilly, 2009). Malik (2011) defines profitability of the firm as the state or condition of yielding a financial profit or gain.

1.1.3. Dividend Policy and Financial Performance

Finance literature provides conflicting results on the relationship between profit approach and money related execution of firms. Dark and Scholes (1974) in their study inferred that

it was impractical to exhibit utilizing the best observational techniques that the normal profits for high return regular stocks vary from the normal profits for low yield basic stock either before or after expenses. Speculators looking for high profits will lean toward organizations with high profit payouts. Nonetheless, speculators looking for higher capital development may incline toward a lower profit payout on the grounds that capital additions are burdened at a lower rate (Musyoka,2014). Profits are vital to financial specialists as its one of the signs that an organization is creating benefits (Barron, 2002).

Mutie (2011) in a study on the relationship between earlier period profits and budgetary execution of firms recorded at the Nairobi Securities Exchange inferred that lion's share of firms appreciate a superior monetary execution as showed by their EPS subsequent to issuing profits. Ndirangu (2014) in an investigation of the impact of profit arrangement on future money related execution of firms recorded at the Nairobi Securities Exchange presumed that the positive relationship between current profit payout and future income development depends on the free income hypothesis.

A positive relationship is relied upon to exist between profit approach and an organization's money related execution. According to Ross (1977), in Information Signaling hypothesis, a positive change in the association's profit approach should convey brilliant future prospects for the organization. Nevertheless, Farsio et al. (2004) contend that no huge relationship amongst profits and income hold over the long haul and studies that bolster this relationship depend on brief periods and in this way deceptive to financial specialists.

1.1.4. Firms Listed on Nairobi Securities Exchange

The origin of the Nairobi Securities Exchange (NSE) can be followed back to 1954, when it was constituted as a deliberate relationship of stockbrokers enrolled under the Societies

Act. Africans and Asians were not allowed to exchange on the NSE right now. Business was led by inhabitant Europeans just until 1963 when Kenya achieved autonomy from Britain. The NSE was built up to meet various targets among them: to give an option technique for raising money to little; medium estimated and youthful organizations that think that its hard to meet the more stringent posting prerequisites of the Main Investment Segment Market (MIMS); encourage the liquidity of organizations with a vast shareholder base through 'presentation', that is posting of existing shares for attractiveness and not for raising capital furthermore offer speculation openings institutional financial specialists and people who need to broaden their portfolios and to have entry to divisions of the economy that are encountering development.

In 19991, NSE was enlisted under the Companies Act furthermore received a 20-share file and changed computational strategy for the record to a geometric mean. In 2001 NSE was arranged into three-market section to be specific, the Main Investment Market Segment (MIMS), Alternative Investment Market Segment (AIMS) and Fixed Income Securities Market Segment (FISMS). The NSE is the essential bourse in Kenya, offering a mechanized stage for the posting and exchanging of numerous securities. It is publicly traded and is listed as the second self-listed exchange in Africa. The NSE currently has 12 sectors: Agricultural, Automobiles & Accessories, Banking, Commercial & Services, Construction & Allied, Energy & Petroleum, Insurance, Investment, Investment Services, Manufacturing & Allied, Telecommunication & Technology, Growth Enterprise Market Segment. There are a total of 64 companies listed.

Most firms listed on the NSE mostly pay dividends in the form of cash dividends and bonus shares. 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 the end of the financial year. In some cases, firms pay a one off extra dividend. However, there are a number of corporations, which have not paid profits in quite a while because of money related imperatives. Most firms on the NSE have obviously characterized profit approaches and are in accordance with the general profit hone in the business. Firms recorded on the NSE in this manner frame a decent representation of the organizations in Kenya and were henceforth decided for the study.

1.2. Research Problem

There have been conflicting conclusions on the relationship between dividend policy and financial performance of firms. Modigliani and Miller (1961) give the premise to the investigation of profit approach in the present day. They contend that under certain immaculate conditions, profit strategy is immaterial. They contend that the impact of a company's profit approach on the present cost of its shares involves impressive significance to chiefs as well as to speculators. There are two principle-restricting hypotheses on profit strategy and its impact on budgetary execution; the superfluous profit hypothesis and the important profit hypothesis. The subsequent profit discussion was started by these two restricting profit hypotheses have contributed in huge to the continuous verbal confrontation with reference to whether profit strategy influences company's budgetary execution and in this way the estimation of the firm (Lease et al., 2000).

The company's strategy on appropriation and maintenance of profit has suggestions at share costs which will inevitably influence comes back to speculators, financing of inward development and the value base through maintenances together with its equipping and influence (Omran and Pointon, 2006). Franfurtet and McGoun (2002) presumed that the

profit baffle, both as a share esteem-improving element and as an issue of arrangement is a standout amongst the most difficult points in advanced monetary financial matters. Aivasian et al. (2008) contend that in developing markets, firms have high money related requirements and henceforth are profoundly delicate to a few determinants of profit strategy that are proposed by research in the created nations. Experimental studies demonstrate that organizations in emerging nations like Kenya smooth their revenues and along these lines profits. The example of corporate profit arrangements shifts after some time as well as crosswise over nations, particularly between industrialized, emerging and unindustrialized Capital Markets. Executives are at in an impasse about whether to pay huge, little or zero proportion of income as dividends. This has occurred because of the requirement for executives to fulfill the different needs of shareholders and instability on the impact of the profit payout proportion will have on the future money related execution.

Yegon, Cheruiyot and Sang (2014) studied the effects of dividend policy on firm's financial performance. They researched dividend policy as a factor of ROCE, FIXA, and EPS but did not look at the form and timing of dividend policy. Chumari (2014) administered an evaluation research to define the relationship between dividend payout and financial performance of corporations under the NSE. 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) conducted a similar study that focused on retained and distributed earnings, change in cash flows and net operating assets, but did not look at the dividend payout, form and timing of dividend payments. Mutisya (2014), who conducted a research similar to Chumari (2014), concentrated on dividend payout ratio as the only factor of dividend policy and only covered a period of five years.

Musyoka (2014) studied the effect of dividend policy on the financial performance of firms listed at the NSE. However, her study did not look at dividend per share and the study only focused on firms listed on the NSE 20 Share Index and did not look at all firms listed on the NSE. She also only analyzed data for a period of five years. Matendechere (2015) studied the relationship between dividend payout and performance of savings and credit co-operative societies in Nairobi county. She only focused on net profit after tax and dividend rates per year but she did not look at the dividend policies and the timing and form of dividends. Masara (2015) studied the relationship between dividend payout and the value of commercial banks listed at the NSE and only concentrated on the dividend payout ratio. Migwi (2015) studied the effect of profitability on dividend policy on commercial banks in kenya and only focused on dividend payout, profits, liquidity and inflation rate. Otieno (2015) studied the effect of dividend policy on stock returns of commercial banks listed at the NSE, he focused on banks only and their stock returns.

Literature 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 researchers have studied the effect of dividend policy on firm performance and they mainly focused on change in cash flow, net operating assets, retained earnings and distributed earnings. Very little research has focused on timing, form of dividends and dividend per share and analyzed data for a period of more than five years. This gap in literature has motivated this study that seeks to answer the research question, what is the effect of dividend policy in financial performance of firms listed at the Nairobi Securities Exchange?

1.3. Research Objective

To establish the relationship between dividend policy on financial performance among companies listed at the Nairobi Securities Exchange.

1.4. Value of the Study

The findings of the research will benefit potential and current investors. For current investors, the association between profits and monetary execution of the firm will help the speculators settle on educated choices on whether to discard their shares or to purchase all the more in order to profit in future from the firm. This will likewise help potential financial specialists in settling on choices on where to devote their cash. If there should be an occurrence of a positive relationship, potential financial specialists will seek after interests in organizations that have been paying out immense profits.

The study will likewise profit money related examiners in giving convenient and important guidance to their customers. The budgetary experts would have the capacity to guide their customers on which organizations to put resources into and which ones to maintain a strategic distance from. They will likewise have the capacity to prompt organizations on regardless of whether to pay profits and if to pay, the amount to pay. The study will provide an external view on the relationship between the dividend policies they have previously adopted and their financial performance and the comparison over time and across various firms. This will aid the firms to re think their investment decisions versus their dividend policies resulting in better future performance.

The study will assist employees to know the expected performance of their companies and to align their expectations. The study will enable the employees to make decisions on whether to buy into the employee stock ownership plans of their respective company given

the future expected financial performance of these firms. The employees can also know whether their respective companies are expected to be financially healthy into the future given the dividend policies adopted and when to detect financial constraints and potential collapse of the companies.

It will also enable the lenders of various firms to know if the companies have the capability to service their borrowings in the future based on the expected financial performance. Creditors will be lenient to firms with good future prospects and strict with firms that do not have certainty about their expected future financial performance. The study will also enable the lenders to monitor and derive the signals given by the firms based on the dividend policies announced. This will help them conclude on the expected financial prospects of the firms and whether to apply restrictions on the dividend policies.

Finally, the research will make positive contributions through insights to the body of knowledge in addition to providing a point of reference to future researchers in the field of dividend policy and financial performance. The study will give future researchers a thorough understanding of the factors that lead to better future performance of firms and how dividend policies affect this performance. The researchers can also carry out additional studies focusing on the breaches recognized in this research.

CHAPTER TWO: LITERATURE REVIEW

2.1. Introduction

This chapter reviews the various empirical studies by scholars regarding the relationship between dividend policy and financial performance of firms. It also covers theoretical reviews of dividend policy and looks at the determinants of financial performance of firms.

2.2. Theoretical Review

Various hypotheses have been formulated for the explanation of the dividend puzzle. These are; Dividend irrelevance theory by Modigliani and Miller, Bird in hand theory, Information signaling theory, Agency theory, Tax preference theory. These theories are discussed below.

2.2.1. Dividend Irrelevance Theory

Dividend irrelevance theory of Miller and Modigliani (1961) shapes the foundational bedrock of innovative corporate back hypothesis. MM contended that profit strategy is unessential for the cost of capital and the estimation of the organizations in a world without assessments or exchange cost. They demonstrated that when financial specialists can make any pay design by offering and purchasing offers, the normal return required to actuate them to hold company's shares will be invariant to the way the firm bundles its profit installments and new issues of shares. Since the company's benefits, speculations openings, expected future net money streams and cost of capital are not influenced by the decisions of profit arrangement, its reasonable worth is unaffected by any adjustment in the association's payout design. In this way, profit approach is unimportant and firm can pick any payout design without influencing their esteem. MM hypothesis infers that profit payout will vacillate as a by-result of the association's speculations and financing choices.

This won't show a deliberate example after some time. Miller and Modigliani (1961) contended that the company's esteem requires resolutions emanating from its essential gaining force and its business chance.

MM based their contention upon optimistic suppositions of an impeccable capital market and judicious speculators. The suppositions of a flawless capital market important for the profit unimportance speculation can be condensed as takes after: no contrasts between expenses on profits and capital picks up; no exchange and buoyancy costs brought about when securities are exchanged; all market members have free and equivalent access to a similar data (symmetrical and costless data); no irreconcilable circumstances amongst administrators and security holders (no organization problem); all members in the market are value takers. Given the significance of MM's contention in the profit strategy talk about gives their verification of immateriality.

Black (1976) contended that there might be interminable reasons of paying dividends and dividends may just speak to the arrival to the speculator who confronts a specific level of hazard when putting resources into the organization. He likewise reasoned that organizations pay profits as a method for compensating existing shareholders thus that speculators will procure the organization's shares on the off chance that they are sold at higher cost. Contradicting suggestions contend that high profit installment builds share cost which thusly expands the firm esteem and consequently diminishes the cost of value (Graham and Dodd, 1962). Blume (1980) gave confirm that higher profit payout prompt to higher required rate of profits which unfavorably impacts on share cost. The optimistic presumptions of an immaculate capital market and judicious financial specialists don't hold

in this present reality since organizations pay corporate charges and there are numerous defects that give arbitrage openings.

2.2.2. 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 depends on the thought that in the realm of vulnerability and flawed data, profits are esteemed uniquely in contrast to held income. Speculators are seen to be judicious and hence incline toward “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 profits to chiefs and organization supervisors is a test since financial specialists have different perspectives on present money profits and future capital increases.

Therefore, speculators would be slanted to pay a higher cost for shares on which current profits are paid. Current profit installment (fledgling in the hand) diminish financial specialist instability and result in the high estimation of the firm. Speculators would accordingly favor profits to capital addition ns (Amidu, 2007). This is on the grounds that, a higher current dividend diminishes vulnerability about future money streams to speculators, a high payout proportion will reduce the cost of capital, and subsequently increment share esteem, (Baker, Veit, and Powell,2001).

Bhattacharya (1979) recommended that the thinking basic the fowl in the hand speculation is misleading. In addition, he proposed that the association's hazard influences the level of profit not a different way. That is, the hazard of an association's income impacts its profit

installments, however increments in profits won't lessen the danger of the firm. The idea that organizations confronting more prominent vulnerability of future income (chance) have a tendency to embrace bring down payout proportions is by all accounts hypothetically conceivable). However, Murekefu and Ouma (2012) found that the organization’s performance is majorly influenced by the dividend payout and real present earnings are preferred by investors than capital gains. This hypothesis is essential to the research as it helped in determining the impact of dividend payout method whether in cash or stock on the stock returns of firms listed at the NSE.

2.2.3. Information Signaling Theory

Miller and Modigliani (1961) expected that directors and outside financial specialists have free, equivalent and immediate access to a similar data with respect to a company's prospects and execution. As indicated by the flagging theory, financial specialists can derive data about a company's future income through the flag originating from profit declarations, both as far as the security of, and changes in, profits. Be that as it may, for this speculation to hold, directors ought to firstly have private data about a company's prospects, and have motivating forces to pass on this data to the market. A flag ought to be valid; a firm with poor future prospects ought not have the capacity to imitate and send false flags to the market by expanding profit installments. Accordingly, the market must have the capacity to depend on the flag to separate among firms. On the off chance that these conditions are satisfied, the market ought to respond positively to the declarations of profit increment and unfavorably generally.

It has been observationally settled that when profits are expanded or started, costs of the related regular stocks have a tendency to go up, and when profits are cut or overlooked,

costs fall (Akhigbe, Borde and Madura, 1993; Omran and Pointon, 2003and Egu, 2009).Lintner (1956) contended that organizations tend to build profits when directors trust that income have for all time expanded. This recommends profit increments suggest long run manageable income. Numerous scholars fight that the ascent in the stock cost taking after a profit increment passes on positive data, that is, administrators utilize profits to flag their perspectives of future income prospects. The possibility that adjustments in profits have data content about the future income of the firm remains the got intelligence in corporate back (Baskin, 1989; Ball et al., 1979; Bhattacharya, 1979).

The part of changes in profits as data flagging gadgets was further focused by Brickley (1983), who analyzed stock returns and profit and income designs encompassing exceptionally assigned profits (SDDs) and contrasted them with those encompassing standard profit increments. Brickley proposed that both SDDs and standard profit builds seem to pass on positive data about future profits and income past the present period. Mwaura, Ganesh, and Waweru (2012) concluded that investors use dividends as a gesture about the firm's future forecast. These findings were established in their study on the motioning premise by scrutinizing the transposition properties of dividends, this brings the findings to a Kenyan perspective.

2.2.4. Agency Theory

Jensen and Meckling (1976) in their theory noticed that one of the organization costs issue that might be impacted by profit arrangement is the potential clash amongst shareholders and bondholders. Shareholders are considered as the specialists of bondholders' assets. For this situation, abundance profit installments to shareholders might be taken as shareholders dispossessing riches from bondholders. Shareholders have restricted obligation and they

can get to the organization's income before bondholders; subsequently, bondholders want to put limitations on profit installments to secure their cases.

MM's presumption of an immaculate capital market is that there are no irreconcilable situations amongst administrators and shareholders. By and by, notwithstanding, this presumption is flawed where the proprietors of the firm are unmistakable from its administration. For this situation chiefs are constantly blemished operators of shareholders (principals). Shareholders in this manner acquire (organization) costs connected with checking supervisors' conduct, and these office expenses are a verifiable cost coming about because of the potential irreconcilable situation among shareholders and corporate directors. The installment of profits may serve to adjust the interests and alleviate the organization issues amongst supervisors and shareholders, by lessening the optional assets accessible to chiefs (Rozeff, 1982; Easterbrook, 1984; Jensen, 1986; Alli, Khan & Ramirez, 1993).

Jensen (1986) battled that organizations with abundance (free) income give directors more adaptability for utilizing the assets as a part of a way that advantage themselves however not shareholders' best advantages, profit installments can in this manner be valuable for the shareholders keeping in mind the end goal to control the over speculation issue and keeping administrators from undertaking negative NPV ventures. Easterbrook (1984) contends that profits lessen the over speculation issue on the grounds that the installment of profits expands the recurrence with which firms need to go to value advertises keeping in mind the end goal to raise extra capital. During the time spent pulling in new value, firms subject themselves to the checking and restraining of these business sectors. Administrators may not generally receive a profit arrangement that is esteem boosting for shareholders however

would pick a profit approach that amplifies their private advantages. Making profit installment that decreases the free money streams accessible to the supervisors would guarantee, along these lines, that managers amplify shareholders' riches as opposed to utilizing the assets for their private advantages (DeAngelo et al., 2006).

2.2.5. Tax Preference Theory

Litzenberger and Ramaswamy (1979) in their Tax Preference theory contended that financial specialists need organizations to hold profit and in this manner give returns as lower-burdened capital picks up instead of vigorously saddled profits. As such, low profit payout proportion brings down the required rate of return and builds the market estimation of the association's shares. Farrar and Selwyn (1967) accept that financial specialists expand after duty salary. In a fractional harmony structure, financial specialists have two options. People pick the sum of personal and corporate disseminations as profits or capital additions. They contemplated that if the successful negligible capital increases impose paid by shareholders is not exactly the peripheral rate of assessment that would be paid on wage from profits then a shareholder is in an ideal situation with zero profits.

Brennan (1970) then again broadens Farrar and Selwyn's outcomes by considering how the costs of stocks may be influenced by various profit strategies. He expected that the market costs of stocks would conform in a manner that the after expense rate of return got by holders of an organization's stock would be the same regardless of what profit arrangement the organization embraces. In Brennan's model, purchasers and merchants of the stock would require the same after assessment form from the stock regardless of the possibility that the organization embraces an alternate profit arrangement. This implies if a firm receives a high profit payout arrangement, and if shareholders need to pay higher

assessments subsequently, the association's stock will have a lower cost with a specific end goal to keep up the same after expense rate of give back that shareholders require.

2.3. Determinants of Financial Performance of Firms Listed on the Nairobi Securities Exchange

A firm’s financial performance is basic to its wellbeing and survival. A company's elite mirrors its adequacy and productivity in the administration of its assets for operational, venture and financing exercises (Naser & Mokhtar, 2004). There are several factors that affect a firm’s financial performance. Leverage, firm size, liquidity, asset utilization and ownership concentration are discussed below.

2.3.1. 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.

Baker (1973) researched the relationship between industry gainfulness and influence furthermore consolidated the impact that hazard may have on industry's productivity. Utilizing the information for ten-year time span influence was measured as the proportion of value to aggregate resources. Low estimation of leverage would suggest higher

utilization of obligation capital rather than obligation to value or obligation to aggregate resources. Benefit was measured utilizing net income. The study inferred that industry conditions impact the company's decision of influence. The concentrate likewise reasoned that organizations with higher obligation capital had more productivity that is prominent. Association's financing source can likewise add to better gainfulness, the utilization of monetary influence materializes in positive advantages to budgetary soundness of a firm, and this can likewise add to better profit for value of these organizations. Albeit more noteworthy obligation level builds industry productivity, it additionally actuates higher hazard (Mackay & Phillips, 2005).

2.3.2. Firm Size

According to Abiodun (2013), the measure of a firm assumes an imperative part in deciding the sort of relationship the firm appreciates inside and outside its working environment. The bigger a firm is, the more noteworthy the impact it has on its partners. Once more, the developing impacts of aggregates and multinational enterprises in today's worldwide economy are characteristic of what part estimate plays inside the professional workplace.

Greater part of studies measuring the impact of firm size on benefit has discovered results with positive course. Ozgulbas et al. (2006) considered the impacts of firm size on execution over the organizations working in Istanbul Stock Exchange between the years of 2000 to 2005. Due to their study, they have found that huge scale firms have a higher execution when contrasted with little scale firms. In a comparable manner, Jonsson (2007) concentrated on the connection amongst gainfulness and size of the organizations working in Iceland. Consequences of the investigation demonstrated that greater firms have higher

productivity when contrasted with littler firms. Firm size is measured by taking logarithm of aggregate resources of a firm.

2.3.3. 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. Markers of liquidity and gainfulness have significant significance to both shareholders and potential financial specialists. In principle, liquidity and productivity objectives are for the most part thought to be conflicting to each other. The objective of liquidity administration ought to be to empower a firm to augment benefits of its operations while meeting both transient obligation and operational costs (Panigrahi, 2014).

Liquidity administration is for the most part assessed from the point of view of working capital administration, as the vast majority of the markers utilized for assessing liquidity, for example, liquidity proportions and money transformation cycle are gotten from the segments of working capital. Markers of liquidity are current proportions which consider money and close money likewise alluded to as current assets, and current liabilities. Liquidity is additionally measured as basic analysis or fast proportions and money proportions. Present and basic analysis proportions are utilized to assess the impact of liquidity on benefit; money proportions concentrate on money change cycle as the principle marker of liquidity. Liquidity proportions catch money related parts of a firm covering current resources and current obligations.

2.3.4. Asset Utilization

According to Ellis (1998), asset utilization measures which resources are equipped for delivering and what they really create. On the other hand, resource dis-use speaks to misfortunes in income, particularly on the speculation that might be inferable from the wasteful utilization of benefits. Resource dis-usage may build organization costs since directors don't act to the greatest advantage of the proprietors (Fleming, Heaney and McCosker, 2005). Okwo (2012) did an investigation of interest in settled resources and firm benefit and found that the relationship is sure yet the outcome is not measurably critical. Xu and Xu (2013) did an examination of the ideal distribution of advantages structure and business execution. The discoveries demonstrated that there existed a factually huge relationship between resources structure and business execution.

Xu (2013) inspected the effect of benefit usage on money related execution of firms recorded on Shanghai Stock Exchange 50 for the period January 2008 to December 2012. He measured asset utilization by total asset turnover ratio and used multiple regressions with ordinary least squares. He found that for both sorts of firm execution estimation (ROA and ROE), the outcomes demonstrated a positive and critical relationship between resources usage and firm execution. He reasoned that higher resource usage ought to help firms enhance their piece of the pie by concentrating on their regions of ability, by expanding their speed, by freeing assets to reserve development and by decreasing costs that allow bring down costs to be managed.

2.3.5. Ownership Concentration

There are conflicted conclusions about the effect of ownership concentration of financial performance of firms. Under agency cost theory, insider proprietorship and institutional

possession are contrarily identified with organization costs as the shareholders can screen the administration all the more viably (Alli et al, 1993). Moreover, as per office hypothesis, a higher influence proportion may moderate potential clashes amongst proprietors and administrators concerning the decision and the level of danger of extra ventures (Jensen and Meckling, 1976). That is, the office hypothesis would bolster the theory that an expanding influence proportion triggers lessening "organization expenses of outside value and change of firm execution, all else held equivalent" (Berger and di Patti, 2002). Notwithstanding, under duty based hypothesis, institutional proprietorship is emphatically identified with profit payout on account of assessment differential and customer base impact (Short et al, 2002) in light of the fact that establishments lean toward profits than capital increases.

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

2.4. Empirical Studies

Black and Scholes (1974) classified all common stocks on the New York Stock Exchange (NYSE) into 25 portfolios (for every year between 1931 and 1966) on the basis of both dividend yield and risk by breaking down the stocks by dividend yield into five different

groups ranging from highest to lowest, and further dividing each of these groups into five risk classifications. The result was 25 different portfolios of securities with widely different risks and yields. The procedure was repeated for each of the 35 years tested in order to capture changes in risk and yield. This enabled Black and Scholes to hold the risk of securities constant while permitting only dividend yield to vary. At the same time while holding risk constant within individual portfolios, it also allowed them to test whether the dividend yield had a different effect on stocks at different levels of risk. Applying regression model (which attempts to quantify the relationships(s) between two or more variables being dividend yields, betas and stock returns) Black and Scholes found that the impact of profit yield was not dependably unique in relation to zero, whether over the whole time frame 1936-1966, or in any of the shorter sub-time frames tried.

Building on Black and Scholes' work, Ball, Brown and Finn (1979) analyzed the impact of profits on association's esteem utilizing Australian information over the period 1960 to 1969. Ball et al. (1979) nevertheless, neglected to discover convincing confirmation to bolster MM's unimportance proposition. Baker, Farrelly, and Edelman (1985) overviewed the (CFOs) of 562 firms recorded on the New York Stock Exchange (NYSE) from three industry bunches (150 utilities, 309 assembling, and 103 discount/retail). In light of 318 reactions, they found that respondents emphatically concurred that profit approach influenced normal stock costs. Dough puncher and Powell (1999) reviewed 603 CFOs of US firms recorded on the NYSE, and watched that 90 percent of respondents trusted that profit arrangement influenced a company's esteem and also its cost of capital.

Fidrmuc and Jacob (2009) led an examination to clarify the purposes behind the segregation in the profit installment systems everywhere throughout the world. Information

was gathered from 5797 firms in 41 nations utilizing standard and Poor's Capital IQ catalog. Subordinate variable was profit to salary extent and self-ruling factors were independence, control separate, instability evasion, estimate, return on resources, influence, compulsory profit, deals development, share repurchases, corporate obligation proportions, possession structure, profit to deals proportion, hostile to executive rights, against self-managing record and duty advantage. Information was broken down utilizing relapse demonstrate. Comes about demonstrated that high peculiarity, low power separation and low uncertainty avoidance had critical relationship with predominant profit installments. Culture additionally was an indispensable capacity in the choice of the profit arrangement as it is a social viewpoint.

Mutisya (2014) did a study that looked to decide the relationship between profit payout and budgetary execution of firms recorded in the Nairobi Securities Exchange. A relapse examination was performed to set up the relationship between profit payout and firm execution utilizing information got from the monetary proclamations of recorded firms in the Nairobi Securities Exchange. The monetary information utilized for the study secured the period somewhere around 2009 and 2013. The logical factors included profit payout, which was measured as the proportion of profit per share and income per share. Firm size was measured as the normal logarithm of aggregate resources of the recorded firms. The organizations' influence was measured as the proportion of aggregate obligation isolated by the book estimation of benefits of the organizations. The discoveries showed that profit payout was a main consideration influencing firm execution. The outcomes likewise demonstrated critical connections between profit for resources, profit payout, company's size and influence. In light of the discoveries, the study reasoned that for recorded firms in

Nairobi Securities Exchange, size and influence do impact the arrival on resources. The positive relationship of association's size and profit for resources demonstrated that expanding the firm size is connected with an expansion in budgetary execution.

Mutie (2011) sought to determine the relationship between prior period dividends and the financial performance of firms listed at the NSE. The study reviewed related literature with regards to the area of study which seemed to favor the argument that dividend payment indeed leads to a better financial performance for a firm. To undertake the study, a population of all companies listed at the NSE was considered of which a sample of 34 companies was selected. The variables in the study were the firms' financial performance (earnings per share) and the prior period dividends (dividend per share). The study relied on secondary data collected from the companies' websites, CMA, NSE and ICPAK amongst other sources. The information was examined utilizing the exploitations of Statistical Package for Social Scientists (SPSS) and after that introduced as tables and charts. The consequences of the study uncovered that greater part of firms appreciate a superior money related execution as showed by their EPS in the wake of issuing profits. All things considered, a relationship without a doubt exists between earlier period profit installments and monetary execution of a firm. Notwithstanding, the study neglects to mull over different components that likewise influence the money related execution of a firm.

Musyoka (2014) contemplated the impact of profit arrangement on money related execution of firms recorded at the NSE. She broke down information for a time of five years (20110-2014) utilizing a specimen of 20 firms recorded at the NSE 20 share list. Her study inferred that profit arrangement had a critical constructive outcome on budgetary execution of firms recorded at the NSE. But firm size and influence, alternate factors (profit

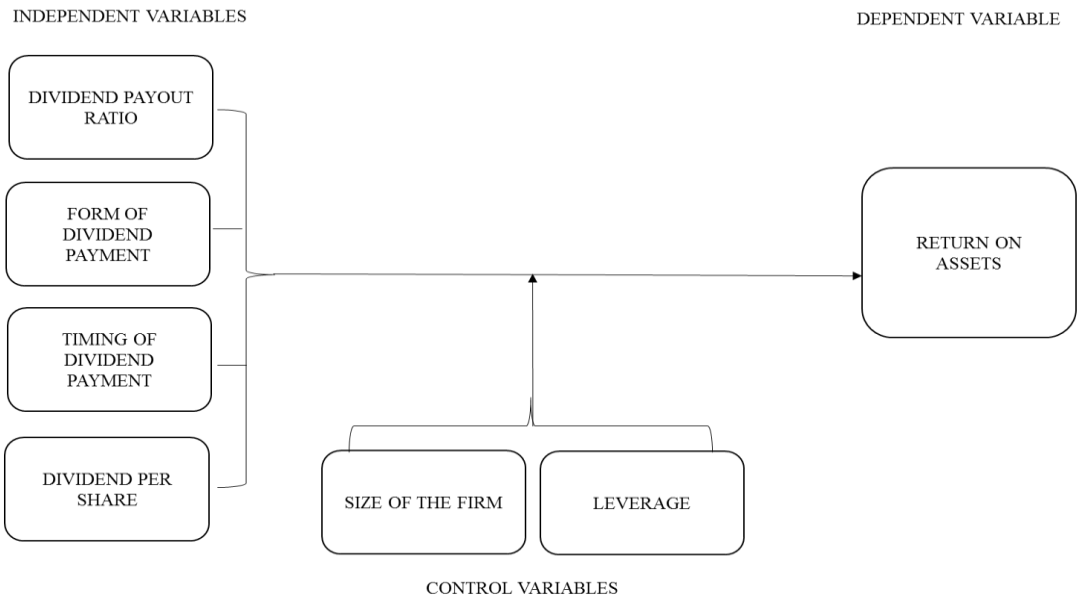
payout proportion, timing of profit installments and type of profit installments) had a critical positive effect on the estimation of the firm. The study reasoned that the main considerations that influence money related execution of recorded firms are profit payout proportion, type of profit installments and timing of profit installments. Different components, for example, add up to resource and influence have no critical impact on the budgetary execution of the firm.

Matendechere (2015) examined the relationship between profit payout and execution of reserve funds and credit co-agent social orders in Nairobi County for the period 2010 to 2014. Auxiliary information was gotten for an example of 179 Saccos together with essential information with the end goal of noting the exploration address. The information was investigated utilizing engaging insights and also inferential measurements. Distinct measurements were utilized to comprehend the information and aided in sorting out and condensing the information. Inferential insights were utilized as a part of making legitimate conclusions from the information. Connection and relapse investigation was utilized to discover the level of the relationship between profit payout and monetary execution. The aftereffects of the study demonstrated that there exists a relationship amongst profits and firm execution, the outcomes likewise demonstrated that the degree of the relationship amongst dividends and firm execution was noteworthy. Different elements, for example, income and aggregate resources likewise have a significant impact on firm execution.

Migwi (2015) concentrated on the impact of gainfulness on profit arrangement of business banks in Kenya for the period 2009 to 2014. The study included a clear research plan utilizing 27 of the 44 business banks in Kenya and utilized auxiliary information. The study

found that there was a critical relationship between profit strategy and the gainfulness of the business banks. Different components, for example, liquidity and expansion significantly affected the estimation of the banks. The concentrate however presumed that the quality of the relationship amongst benefit and profit arrangement diminished when liquidity and rate of expansion were fused in the study. The study prescribed that banks ought to pay profits to keep up a high estimation of the firm.

2.5. Conceptual Framework



2.6. Summary of Literature Review

This chapter has gone for displaying a survey of the writing identified with the motivation behind the study. The reason has been to think about the relationship between profit arrangement and the monetary execution of the firm. Nevertheless, there are changed conclusions concerning the part of the earlier period profits on the budgetary execution of firms. However, most specialists have a tendency to trust that there is a positive

relationship; a couple other people who trust that there is no such relationship and consequently earlier period profits do not influence the monetary execution of the firm.

This chapter in this way uncovers profit approach is a basic variable to the execution of the organization in that it drives the firm to more elevated amounts as far as goodwill when contrasted with its associates. For example, high profit is the absolute most element considered by most partners in choosing whether to believe their interests in an organization. Thus, profits are the surrogates utilized when the organization offers no money related articulations to break down, no income explanation to be considered by providers, no monetary record to be examined by moneylenders, no announcement of changes in value to be contemplated by financial specialists, no rewards to assuage workers and no corporate social duty spending plan to guarantee the clients.

The larger part of studies led tend to point towards a positive relationship between earlier period profits and the dividend policy of the firm. From the studies directed as such, it is obvious that the most basic variables considered by a firm in thinking of a profit approach are the normal money streams, liquidity and productivity of the firm. This examination takes a gander at the issue by consolidating different parts of profit strategy, for example, profit payout proportion, shapes, timing of profit installments and profit per share.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1. Introduction

This chapter aims at explaining how the study systematically researched the relationship between prior period dividends and financial performance of firms listed at the Nairobi Stock Exchange. The chapter fixates on the different strategies and systems the specialist received in leading the exploration and is composed in the accompanying structure: the examination outline, populace, test, information accumulation techniques, and information investigation strategies.

3.2. Research Design

This study utilized a descriptive configuration that tries to analyze the impact of profit arrangement on the execution of organizations recorded on the NSE. This is because the study was going for setting up the relationship between the two factors.

3.3. Population

The populace entailed all the firms listed at the Nairobi Stock Exchange. As at December 2015 there were 64 companies listed at the Stock Exchange and therefore forming the population. The companies listed on the NSE were studied for the period 1stJanuary 2006 to 31stDecember 2015.

3.4. Data Collection

The study used secondary data from the NSE handbook for the period1st January 2006-31st December 2015. Data was also sourced from the financial statements of the respective companies and the CMA. Data for financial performance (dependent variable) as measured by ROA was obtained from the statements of comprehensive income and statement of financial position for the period of the study by looking at the net income, and total assets.

Data for dividends pay-out ratio was obtained from the statement of comprehensive income by measuring the dividends paid out and the net income for each year of the period of the study. Data for dividend per share was obtained from the statement of comprehensive income by measuring the dividends paid out and total number of shares for each year of the period of the study. Data for leverage was obtained from the statement of financial position by measuring total debt and total equity for the period of the study. Data for size of the firm was obtained from the statement of financial position by measuring total assets. Additional data like the form and the number of dividend payments per year per firm was also obtained from the NSE. The ten-year period was deemed long enough to address any events which could affect the trends and relationships in a particular year.

The study was conducted on all firms listed on the NSE where secondary data from 1st January 2006 to 31st December 2015 was used. Data was collected on dividend payout ratio, dividend per share, form and timing of dividends, return on assets, size of the firm and leverage. Data was collected from the NSE handbooks for each year, the firm's websites and other relevant websites such as the NSE's website. The study targeted all the sixty-four firms listed on the NSE as at December 2015. However, the study was only able to access data from only forty-two of the targeted firms which had consistent data for the entire period of the study

3.5. Data Analysis

The analysis is aimed at establishing the effect of dividend policy on financial performance of firms listed at the NSE over the ten-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). The model was adopted from Musyoka (2014). To

identify the determinants of firm performance, the model specified in the equation below was applied. The variables to be used will include dividend payout ratio, form of dividend payment, timing of dividend payments, dividend per share, size of the firm and leverage.

A multivariate regression equation was used as follows;

$$\mathbf{Y=\beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \mu}$$

Where;

Y = Firm performance measured by Return on Assets

To get ROA the net income was divided by the total assets annually for the period of the study. This was used as the dependent variable in the regression equation.

$\mathbf{X_1}$ = Dividend payout Ratio

Measuring the DPR was done by dividing the common dividends by the net income after tax annually for the period of the study.

$\mathbf{X_2}$ = Form of dividend payment

Form of dividend payment was measured as how many different forms of dividend the firms paid in each year of the period of the study. Dummy variables for the form of dividends were used.

$\mathbf{X_3}$ = Timing of dividend payments

Timing of dividend was measured as how many times dividend was paid out in each year for the period of the study. Dummy variables for the timing of dividends were used.

$\mathbf{X_4}$ = Dividend per share

To get the dividend per share, the total dividends paid out was divided by the number of shares annually for the period of the study.

$\mathbf{X_5}$ = Size of the firm

To get the size of the firm, the natural logarithm of total assets was used annually for the period of the study.

$\mathbf{X_6}$ = Leverage

To get leverage the total debt was divided by the total equity annually for the period of the study.

$\mathbf{B_0, \beta_1, \beta_2, \beta_3, \beta_4, \beta_5}$ and $\mathbf{\beta_6}$ are coefficients of regression equation.

$\boldsymbol{\mu}$ = Error term

The F-test was used to determine the significance of the regression while the coefficient of determination, $R^2$was used to determine how much variation in the return on assets is explained by the independent variable. This was done at 95% confidence level and correlation analysis was carried out to find the direction of the relationship between return on assets and the independent variables.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1. Introduction

This chapter presents the research findings on the effect of dividend policy on financial performance of firms listed on the NSE. The results are presented in the form of tables. Quantitative data was analyzed by the Statistical Package for Social Sciences (SPSS).

4.2. Data Collection

The study was conducted on all firms listed on the NSE where secondary data from 1st January 2006 to 31st December 2015 was used. Data was collected on dividend payout ratio, dividend per share, form and timing of dividends, return on assets, size of the firm and leverage. Data was collected from the NSE handbooks for each year, the firm's websites and other relevant websites such as the NSE's website. The study targeted all the sixty-four firms listed on the NSE as at December 2015. However, the study was only able to access data from only forty-two of the targeted firms which had consistent data for the entire period of the study.

4.3. Data Validity

The study looked for data that would be able to answer the research question; the effect of dividend policy on the financial performance of firms listed on the NSE. This data was collected for a period of 10 years (2006-2015). Data was collected from the NSE handbooks of each year and cross checked with the financial reports from the firm's websites. The study found that the two data sources provided similar data therefore giving the study no reason to doubt the data collected and providing the data as valid. The data was able to meet the study needs and therefore was considered reliable for the study.

4.4. Descriptive Statistics

Table 4.4-1: Descriptive Statistics

	Firm Financial Performance (ROA)	**DPR %**	**Form of Dividend Payments**	**Timing of Dividend Payments**	**Dividend Per Share**	**Size of the Firm**	**Leverage**
N	42	42	42	42	42	42	42
Minimum	-13.82	-4.45	0.11	0.2	0	5.18	0.23
Maximum	2.73	20.81	1.56	1.8	25.98	8.42	7.09
Mean	-0.0308	0.9206	0.9497	0.9905	3.0673	7.0881	2.3907
Std. Deviation	2.2777	3.68802	0.37795	0.38623	4.76077	0.79391	2.20389
Skewness	-5.603	4.555	-0.817	-0.46	3.174	-0.303	0.985
Std. Error	0.365	0.365	0.365	0.365	0.365	0.365	0.365
Kurtosis	34.805	22.771	0.185	-0.156	12.684	-0.509	-0.491

Std. Error	0.717	0.717	0.717	0.717	0.717	0.717	0.717

The descriptive statistics in table 4.4-1 above give further details of the study. The minimum, maximum, mean and standard deviations are given. The average firm performance over the 10 years was -0.0308. The maximum firm performance observed was 2.73 and the minimum -13.82. The average dividend pay-out ratio over the 10 years was 0.9206; the maximum was 20.81% while the minimum was -4.45%. The average form of dividend payments over the 10 years was 0.9497; the maximum was 1.56 while the minimum was 0.11. The average timing of dividend payments over the 10 years was 0.9905; the maximum was 1.8 while the minimum was 0.2. The average dividend per share over the 10 years was 3.0673; the maximum was 25.98 while the minimum was 0. The average size of the of the firm over the 10 years was 7.0881, the maximum was 8.42 while the minimum was 5.18. The average leverage of the firms over the 10 years was 2.3907, the maximum was 7.09 while the minimum was 0.23.

4.5. Correlation Analysis

To measure the strength of the association between the variables, the study put to use the Karl Pearson's coefficient of correlation. The Pearson product-moment correlation coefficient determines the strength of a linear association between two variables and is denoted by r which can take a range of values from +1 to -1. A value of 0 designates that there is no association between the two variables. A value greater than 0 designates a positive association while a value less than 0 designates a negative association. The Pearson's coefficient was employed to ascertain the presence or absence of linear

correlation between the variables of dividend policy and financial performance. The outcomes are as follows;

Table 4.5-1: Correlation Results

		ROA	**DPR**	**Form of Dividend Payments**	**Timing of Dividend Payments**	**Dividend Per Share**	**Size of the Firm**	**Leverage**
ROA	Pearson Correlation	1						
	Sig. (2-tailed)							
	N	42						
DPR	Pearson Correlation	.682**	1					
	Sig. (2-tailed)	.025						
	N	42	42					
Form of Dividend	Pearson Correlation	.427**	.187	1				

Payments								
	Sig. (2-tailed)	.005	0.235					
	N	42	42	42				
Timing of Dividend Payments	Pearson Correlation	.391*	0.147	.864**	1			
	Sig. (2-tailed)	.010	0.353	0.000				
	N	42	42	42	42			
Dividend Per Share	Pearson Correlation	.567**	.635**	.431**	.477**	1		
	Sig. (2-tailed)	.011	.000	.004	.001			
	N	42	42	42	42	42		
Size of the Firm	Pearson Correlation	.255*	.026	.431**	.383*	.057	1	
	Sig. (2-tailed)	0.010	.868	.004	.012	.721		

	N	42	42	42	42	42	42	
Leverage	Pearson Correlation	-.011	-.083	.187	0	-.059	.636**	1
	Sig. (2-tailed)	.946	.603	.236	.298	.709	.000	
	N	42	42	42	42	42	42	42

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

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

Table 4.5-1 above shows that the correlation between firm performance and dividend payout-ratio is positive and significant (R=0.682). This implies that increase in firm financial performance is associated with an increase in dividend payout-ratio and vice-versa. The correlation of firm financial performance and form of dividend payment is positive and significant (R= 0.427) implying that the form in which dividends are paid out has a positive effect on firm financial performance. The correlation between firm financial performance and timing of dividend payments is positive and significant (R= 0.391) implying that the number of times which dividends are paid out in a year has a positive effect on firm financial performance. The correlation between firm financial performance and dividend per share is positive and significant (R=0.567). This means that higher dividends per share are associated with higher firm financial performance. The correlation between firm financial performance and the firm size is positive and significant (R=0.25) meaning that an increase in the firm size is associated with an increase in firm financial

performance. The correlation between firm financial performance and leverage is negative (R= -0.011). This means that an increase in leverage ratio is associated with a decrease in firm financial performance.

4.6. Regression Analysis and Hypotheses Testing

The researcher conducted a multiple regression analysis to test relationship among e-banking variables and financial performance of banks. The researcher made use of the statistical package for social sciences (SPSS V 21.0) to input and compute the study's measurements of the multiple regressions.

Coefficient of determination explains the extent to which changes in the independent variables explain changes in the dependent variable or the percentage of variation in the dependent variable (ROA) that is explained by all the six independent variables (ROA, DPR, form of dividend payments, timing of dividend payments, dividend per share, size of the firm, and leverage).

Table 4.6-1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.826215	0.682631	0.628225	0.743522

a. Predictors: (Constant), ROA, DPR, form of dividend payments, timing of dividend payments, dividend per share, size of the firm, and leverage.

b. Dependent Variable: ROA

Table 4.6-1 shows model summary of regressed variable of the study. The correlation coefficient (R) value represents the degree and strength of relationship between dependent variable and the independent variables. Coefficient of correlation ranges between -1 and 1 and in this model the coefficient of correlation is 0.826 which indicates a positive correlation between ROA, DPR, form of dividend payments, timing of dividend payments, dividend per share, size of the firm, and leverage. The R Squared is the coefficient of determination which indicates how much of the total variation in the dependent variable. From the above the R squared statistic gives the goodness of fit of the model, which shows how good the regression model approximates the real data points. The R squared of this model is 0.682 which shows that the model is a good fit of the actual data. The coefficient of determination of 0.682 implies that 68.2% of the variance in dependent variable is explained by changes in the independent variables.

Table 4.6-2: Analysis of Variance (ANOVA)

	Sum of Squares	**df**	**Mean Square**	**F**	**Sig.**
Regression	47.563	6	7.927167	12.54696	1.6739E-07
Residual	22.113	35	0.6318		
Total	69.676	41			

a. Predictors: (Constant), DPR, form of dividend payments, timing of dividend payments, dividend per share, size of the firm, and leverage

b. Dependent Variable: ROA

The model summary also indicates that the dependent variable (ROA) is significantly accurately predicted by the regression model. The statistical significance of the regression model that was run is shown by the F test. The P=1.6739E-07, which is less than 0.05 designates that, generally the regression model statistically and significantly predicts the outcome variable that is good fit for the data.

Table 4.6-3: Regression Coefficients

Model		Un-standardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.77	0.451		8.359202	0.000
	Dividend payout Ratio	0.782	0.321	0.146	2.436137	0.020
	Form of dividend payment	0.463	0.179	0.126	2.586592	0.014
	Timing of dividend payments	0.473	0.173	0.045	2.734104	0.010
	Dividend Per Share	0.532	0.127	0.142	4.188976	0.000
	Size of the firm	0.241	0.106	0.0915	2.273585	0.029
	Leverage	-0.161	0.106	1.0915	-1.51886	-0.138

a. Dependent Variable: Return on Assets

The overall equation model for ROA, DPR, form of dividend payments, timing of dividend payments, dividend per share, size of the firm, and leverage was as follows:

$$\mathbf{Y = 3.77 + 0.782\ X_1 + 0.463X_2 + 0.473\ X_3 + 0.532X_4 + 0.241X_5 - 0.161X_6 + \mu}$$

From the model, in any given year, the ROA will be 3.77 when all the predictor values are zero. The model indicates that when the value processed through dividend payout ratio changes by one unit the ROA will increase by 0.782. In addition, when form of dividend payments changes by one unit the ROA increases by 0.463. Further, the study findings revealed that when the timing of dividend payments value changes by one unit the ROA will increase by 0.473. Also, when the timing of dividend per share value changes by one unit the ROA will increase by 0.532. Moreover, when the size of the firm value changes by one unit the ROA will increase by 0.241. On the other hand, when the leverage changes by one unit the ROA will decrease by 0.161. To test the significance of each individual variable which was based at 0.05 the t-test was carried out. The study shows that dividend payout ratio, form of dividend payment, timing of dividend payments, dividend per share, and size of the firm were significant in explaining ROA, while leverage was insignificant.

4.7. Research Findings

The study established from the regression model that in any given year, the ROA will be 3.77 when all the predictor values are zero. The model indicates that when the value processed through dividend payout ratio changes by one unit the ROA will increase by 0.782. In addition, when form of dividend payments changes by one unit the ROA increases by 0.463. Further, the study findings revealed that when the timing of dividend payments value changes by one unit the ROA will increase by 0.473. Also, when the timing of dividend per share value changes by one unit the ROA will increase by 0.532. Moreover,

when the size of the firm value changes by one unit the ROA will increase by 0.241. On the other hand, when the leverage changes by one unit the ROA will decrease by 0.161. To test the significance of each individual variable which was based at 0.05 the t-test was carried out. The study shows that dividend payout ratio, form of dividend payment, timing of dividend payments, dividend per share, and size of the firm were significant in explaining ROA, while leverage was insignificant.

In tandem with the study findings, Mutie (2011) in a study on the relationship between earlier period profits and money related execution of firms recorded at the Nairobi Securities Exchange presumed that greater part of firms appreciate a superior monetary execution as showed by their EPS in the wake of issuing profits. Ndirangu (2014) in an investigation of the impact of profit approach on future budgetary execution of firms recorded at the Nairobi Securities Exchange presumed that the positive relationship between current profit payout and future income development depends on the free income hypothesis. Encourage, Abiodun (2013) opined that the measure of a firm assumes a vital part in deciding the sort of relationship the firm appreciates inside and outside its working surroundings. The bigger a firm is, the more prominent the impact it has on its partners. Once more, the developing impacts of aggregates and multinational companies in today's worldwide economy are characteristic of what part measure plays inside the professional workplace.

The discoveries additionally mirror those of Jahnke (1975) who presumed that profit payout proportion is one of the absolute most determinants of stock costs. His study watched that stock costs and profit salary are the acknowledged pay for owning stocks and

utilized the profit rebate model to exhibit the relationship between profit arrangement and stock qualities.

The concentrate assist uncovered a negative relationship amongst influence and money related execution. This implies an expansion in the influence prompts to a decline in the money related execution. This study affirms the pecking request hypothesis. The pecking request hypothesis predicts that organizations will utilize maintenances to start with, then obligation and value issues if all else fails. The request of inclinations mirrors the relative expenses of different financing choices. Less productive firms confronting a positive NPV venture opportunity will be all the more eager to utilize outside assets if money streams are frail. In this manner, there will be a negative relationship amongst influence and benefit. Fama and French (2002) and Myers (1984) both archived a negative relationship amongst influence and gainfulness.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1. Introduction

This chapter provides a summary of the findings of the research, the conclusion of the study, limitations of the study, recommendations, and suggestions for further research.

5.2. Summary of Findings

In determining the effect of dividend policy on the financial performance of firms listed at the NSE, the study evaluated the following six financial performance variables; dividend payout ratio, form of dividend payments, timing of dividend payments, dividend per share, firm size and leverage. From the information acquired, different factors were separated and figured to empower sufficient investigation to be done.

The study revealed that the average firm performance over the 10 years was -0.0308 and that the maximum firm performance was 2.73 and the minimum was -13.82. The study also established that the average dividend pay-out ratio over the 10 years was 0.9206 and that the maximum was 20.81% while the minimum was -4.45%. The average form of dividend payments was found to be 0.9497, the maximum was 1.56 while the minimum was 0.11. The average timing of dividend payments over the 10 years was 0.9905; the maximum was 1.8 while the minimum was 0.2. The average dividend per share over the 10 years was 3.0673; the maximum was 25.98 while the minimum was 0. The average size of the of the firm over the 10 years was 7.0881, the maximum was 8.42 while the minimum was 5.18. The average leverage of the firms over the 10 years was 2.3907, the maximum was 7.09 while the minimum was 0.23.

The study revealed that the correlation between firm performance and dividend payout-ratio is positive and significant and that increase in firm financial performance is associated with an increase in dividend payout-ratio and vice-versa. The correlation of firm financial performance and form of dividend payment was also found positive and significant indicating that the form in which dividends are paid out has a positive effect on firm financial performance. The study also established that correlation between firm financial performance and timing of dividend payments is positive and significant and that the number of times which dividends are paid out in a year has a positive effect on firm financial performance. The study also found the correlation between firm financial performance and dividend per share was positive and significant and that higher dividends per share are associated with higher firm financial performance. The study also established correlation between firm financial performance and the firm size was positive and significant and that the correlation between firm financial performance and leverage was negative. This means that an increase in leverage ratio is associated with a decrease in firm financial performance.

5.3. Conclusions

The objective of the study was to determine the effect of dividend policy on the financial performance of firms using variables; DPR, form and timing of dividend payment, DPS, firm size and leverage. The study concludes that correlation between firm performance and dividend payout-ratio was positive and significant and that increase in firm financial performance is associated with an increase in dividend payout-ratio and vice-versa. The correlation of firm financial performance and form of dividend payment was also found

positive and significant indicating that the form in which dividends are paid out has a positive effect on firm financial performance.

The study also concludes that timing of dividend payments is positive and significant in firm financial performance and that the number of times which dividends are paid out in a year has a positive effect on firm financial performance. The study also concludes that the correlation between firm financial performance and dividend per share was positive and significant and that higher dividends per share are associated with higher firm financial performance. The study also concludes that correlation between firm financial performance and the firm size was positive and significant and that the correlation between firm financial performance and leverage was negative.

The study therefore concluded that there exists a positive and significant relationship between dividend policy and firm financial performance as evidenced by the positive and significant relationships between the various aspects of dividend policy studied, which were, dividend payout ratio, form of dividend payment, timing of dividend payment and dividend per share. These aspects of dividend policy contributed to higher financial performance of the firms under study for the period of ten years. The variables studied also explained 68.2% of firm financial performance. Of the two control variables studied, the research concluded that firm size has a positive and significant relationship with financial performance and leverage has a negative impact on financial performance.

5.4. Recommendations

Based on the findings of the study, the study recommends that First, Associations ought to guarantee that they have a decent and hearty profit strategy set up. This will improve their productivity and pull in speculations to the associations. Executives of corporate

associations ought to be made to redesign the records of shareholders including their closest relative to maintain a strategic distance from a consider redirection or undue maintenance of unclaimed profit warrants. Due methodology for the acknowledgment and use of benefit emerging from venture of unclaimed profit ought to be affected and appropriately represented.

The study also recommends that leverage ratios should be well managed as high leverage ratios result in decline in firm financial performance. The study can be done with a wider population by including firms that are not listed on the NSE. The scope of further research may be extended to other components determining future earnings as well as including more control variables. Future research ought to embrace different strategies with a specific end goal to investigate diverse measures of profit approach, for example, stock proprietorship by officials and board individuals and look at the corporations interfacing its few measurements and the firm execution.

5.5. Limitations of the Study

The research was limited to firms listed on the NSE. Therefore, the finding of this study could only be generalized to firms similar to those that were included in this research. In addition, data for all the firms was not available and hence the study only focused on forty-two firms. The study also only relied on secondary data and hence future research should be done using primary data.

The study mainly relied on secondary data obtained from NSE handbook and data base. The reliability of the data depends on the correctness, accuracy and care taken by the person preparing the handbook and database, since there were no other sources to compare the accuracy of the figures.

The major limitation of the study was lack of quantitative evidence on the relationship between dividend policy and financial performance of a firm, the scope of the research was limited. The research data was large in scale such that the study could not ascertain a definite function relating dividend policy to financial performance of the firm. The 10-year time period was also long, as many fundamentals could have changed within various companies including mergers, acquisitions, suspension and reinstatement at the stock market, change of business.

Lastly, the study does not take into account the prevailing economic and political environment that may affect the financial performance of firms. An example of this is the global financial crises may have affected some firms negatively regardless of their dividend policies while government legislation could have created an enabling environment for other corporations especially in companies where government is a major shareholder.

5.6. Suggestions for Further Research

Further research should be done on dividend policy effects on the firm performance so as to determine whether similar findings can be realized from the sector to enhance the study's findings. In addition, similar studies should be done in other countries to determine the relationship between dividend policy and effects on the financial performance. Importantly, an empirical study should be done to bring together findings from various countries and regions together on the same issue to bring out these key findings.

The current study used secondary data to bring out the study findings. However, similar outcomes may not be observed if a study based on expert traders' opinion was done. Therefore, a research should be done based on primary data targeting the stock market experts on the effect of dividend policy on financial performance of trading firms. This

would bring out the view point of experts that would combine the findings of this study and their study to give a comprehensive review of this effect.

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APPENDICES

Appendix I: Listed Companies at the Nairobi Securities Exchange as at December 2015

Company	Sector	Symbol
Atlas African Industries (GEMS)	Industrial	AAI
Access Kenya Group	Technology	ACCS
ARM Cement	Industrial	ARM
Bamburi Cement	Industrial	BAMB
British American Tobacco Kenya	Consumer Goods	BAT
A Baumann & Co	Financial	BAUM
Barclays Bank of Kenya	Financial	BBK
Crown Paints Kenya	Basic Material	BERG
B O C Kenya	Basic Material	BOC
British-American Investments Co(Kenya)	Financial	BRIT
East African Cables	Industrial	CABL
Carbacid Investments	Basic Material	CARB
CFC Stanbic of Kenya Holdings	Financial	CFC
Liberty Kenya Holdings	Financial	CFCI
Car & General (K)	Consumer Services	CG
CIC Insurance Group	Financial	CIC
Co-operative Bank of Kenya	Financial	COOP
Diamond Trust Bank Kenya	Financial	DTK
East African Breweries	Consumer Goods	EABL
East African Portland Cement	Industrial	EAPC
Eaagads	Consumer Goods	EGAD
Equity Group Holdings	Financial	EQTY
Eveready East Africa	Consumer Goods	EVRD
Stanlib Fahari I-REIT	Financial	FAHR
Sameer Africa	Consumer Goods	FIRE

Flame Tree Group Holdings (GEMS)	Basic Materials	FTGH
Home Afrika (GEMS)	Financial	HAFR
Housing Finance Co Kenya	Financial	HFCK
Centum Investment Co	Financial	ICDC
I&M Holdings	Financial	IM
Jubilee Holdings	Financial	JUB
Kapchorua Tea Company	Consumer Goods	KAPC
KCB Group	Financial	KCB
KenGen Company	Utilities	KEGN
KenolKobil	Oil & Gas	KENO
Kenya Reinsurance Corporation	Financial	KNRE
Kenya Power & Lighting Co	Utilities	KPLC
Kenya Airways	Consumer Services	KQ
Kakuzi	Consumer Goods	KUKZ
Kurwitu Ventures (GEMS)	Financial	KURV
Limuru Tea Co	Consumer Goods	LIMT
Longhorn Publishers	Consumer Services	LKL
Marshalls East Africa	Consumer Services	MASH
Mumias Sugar Co	Consumer Goods	MSC
National Bank of Kenya	Financial	NBK
NIC Bank	Financial	NICB
Nation Media Group	Consumer Services	NMG
Nairobi Securities Exchange	Financial	NSE
Olympia Capital Holdings	Industrial	OCH
Kenya Orchards	Consumer Goods	ORCH
Pan Africa Insurance Holdings	Financial	PAFR
Sasini	Consumer Goods	SASN
Scangroup	Consumer Services	SCAN
Standard Chartered Bank Kenya	Financial	SCBK
Safaricom	Telecommunications	SCOM

Standard Group	Consumer Services	SGL
Trans-Century	Industrial	TCL
Total Kenya	Oil & Gas	TOTL
TPS Eastern Africa	Consumer Services	TPSE
Uchumi Supermarkets	Consumer Services	UCHM
Umeme	Utilities	UMME
Unga Group	Consumer Goods	UNGA
Williamson Tea Kenya	Consumer Goods	WTK
Express Kenya	Consumer Services	XPRS

Source: NSE

Appendix II: DATA

	ROA	DPR %	Form of Dividend Payments	Timing of Dividend Payments	Dividend Per Share	Size of the Firm	Leverage
Eaagads Ltd	0.03	0.2	0.33	0.4	0.44	5.54	0.3
Kakuzi Ltd	0.1	0.09	0.89	0.8	2.6	6.4	0.53
Kapchorua Tea Co. Ltd	0.03	-0.14	1.11	1.1	5.53	6.17	0.57
The Limuru Tea Co. Ltd	0.17	-4.45	1.11	1.1	5.2	5.18	0.39
Sasini Ltd	0.05	0.12	1.11	1	0.52	6.91	0.35
Williamson Tea Kenya Ltd	0.04	-0.06	1.11	1.2	10.33	6.71	0.28
Car & General (K) Ltd	0.06	0.09	1	1	0.68	6.62	1.53
Marshalls (E.A.) Ltd	-0.08	0.07	0.11	0.2	0.2	5.94	2.26
Sameer Africa Ltd	0.03	0.11	0.56	0.6	0.15	6.52	0.47
Barclays Bank of Kenya Ltd	0.43	0.63	1.44	1.3	1.85	8.25	6.11
CFC Stanbic of Kenya Holdings Ltd	0.25	0.21	0.78	1	1.87	8.02	5.18
Diamond Trust Bank Kenya Ltd	0.03	0.16	1.11	1	1.76	7.95	6.51
Equity Bank Ltd	0.54	0.32	1.11	1	1.56	8.14	4.74
Housing Finance Co.Kenya Ltd	0.02	0.37	1	1.5	0.89	7.43	5.79

Kenya Commercial Bank Ltd	0.37	0.43	1	1	1.97	8.42	6.66
National Bank of Kenya Ltd	0.02	0.05	0.67	0.6	0.15	7.81	7.09
NIC Bank Ltd	0.03	0.19	1.56	1.3	0.93	7.84	6.08
Standard Chartered Bank Kenya Ltd	0.41	0.67	1.11	1.5	12.6	8.17	6.65
Express Kenya Ltd	-13.82	0.04	0.11	0.2	0.09	5.88	2.01
Kenya Airways Ltd	-1.5	0.11	0.67	0.7	0.96	7.97	2.12
Nation Media Group Ltd	2.03	0.62	1.44	1.4	8.2	6.93	0.43
Scangroup Ltd	0.53	0.35	1.11	1	0.63	6.76	1.04
Standard Group Ltd	0.07	0.12	1	0.9	0.41	6.48	1.47
TPS Eastern Africa Ltd	0.04	0.51	1.22	1	1.18	7.02	0.69
ARM Cement Ltd	0.14	0.21	1	1	1.05	7.17	2.29
Bamburi Cement Ltd	1.25	0.63	1.44	1.5	8.3	7.51	0.54
Crown Paints Kenya Ltd	0.05	11.62	1.11	1	1.52	6.37	1.16
E.A.Cables Ltd	0.07	0.49	1	1.4	0.76	6.66	1.64
E.A.Portland Cement Co. Ltd	0.07	0.12	0.44	0.5	0.73	7.11	1.33
KenGen Co. Ltd	0.41	0.37	1	1.2	0.6	8.17	0.36
KenolKobil Ltd	0.53	0.27	1	1.3	1.11	7.4	2.23
Kenya Power & Lighting Co Ltd	0.34	0.28	1.33	1.3	2.65	8.04	2.06
Total Kenya Ltd	0.03	0.06	1	1	1.28	7.41	1.82

Jubilee Holdings Ltd	0.04	0.21	1.33	1.2	6	7.54	4.12
Pan Africa Insurance Holdings Ltd	0.03	0.4	1	0.9	2.2	7.06	4.75
Centum Investment Co Ltd	1.46	0.09	0.22	0.3	0.49	7.11	0.23
B.O.C Kenya Ltd	0.09	1.15	1	1.8	7.1	6.31	0.86
British American Tobacco Kenya Ltd	2.73	20.81	1.33	1.3	25.98	7.1	1.12
East African Breweries Ltd	1.56	0.74	1.44	1.4	7.45	7.63	2.96
Eveready East Africa Ltd	0.01	0	0.11	0.2	0	6.02	1.85
Mumias Sugar Co. Ltd	0.03	0.32	0.78	0.9	0.55	7.27	0.9
Unga Group Ltd	0.05	0.11	0.67	0.6	0.43	6.75	0.9