EFFECT OF DIVIDEND DECISIONS ON FINANCIAL PERFORMANCE OF LISTED FINANCIAL INSTITUTIONS IN KENYA

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DECLARATION

This Project is my original work and has not been presented for a Degree in any other University

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DEDICATION

This project is dedicated to my husband, James Odero who has been a constant source of support and encouragement during the challenges of graduate school and life. I am truly thankful for having you in my life. To my children, Timothy, Seraphine and Leticia i give my deepest expression of love and appreciation. Thank you for the support and company during late nights of typing.

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LIST OF ABBREVIATIONS

CMA: Capital Market Authority

EPS: Earnings Per Share

NASI: Nairobi Stock Exchange All Share Index

NIM: Net Interest Margin

NSE: Nairobi Securities Exchange

ROA: Return on Assets

ROCE: Return on Capital Employed

ROE: Return on Equity

SPSS: Statistical Package for Social Sciences

ABSTRACT

Investors invest in shares with the aim of earning dividend income or capital gain. The amount of dividend paid to the investors depends on the company's dividend policy. Dividend policy is the determination of which portion of cash earnings should be retained in the firm for reinvestment and which funds are paid out to investors from either current or accumulated retained earnings. The objective of this study was to examine the relationship between dividend decisions and financial performance of listed financial institution in Kenya. Several theories were developed to explain the dividend policy puzzle. These included modigliani-miller dividend irrelevance theory, signaling theory, and bird in the hand theory. Descriptive research design fit the proposed study which aimed to determine the relationships between variables that is dividend decision making and financial performance. The target population in this study was all the 15 financial institutions listed in The Nairobi Stock as at 31st December 2015. (As per Appendix I) Since there are only 15 listed Financial Institutions in The NSE as at December 2015, all companies which were actively trading between 2011 and 2015 were studied. The study used secondary data. Audited financial reports of the 15 firms for the period 2011 to 2015 were obtained from the NSE. From the financial statements, the information to be 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. The five year period was deemed long enough to address any events which could affect the trends and relationships in a particular year. Regression analysis was performed on the data to test any effect of dividend decision (independent variable) on a firm's financial performance (Dependent variable). F-test was used to test the joint significance of all coefficients and t-test for the test significance of individual coefficients. The significance of the regression model was determined at 95% confidence interval and 5% level of significance. from the study that dividend policy has an affirmative impact on listed financial institutions performance. There is no gainsaying the fact that strict attention paid to dividend policy by financial institutions would lead to a better performance results. Therefore the management needs to craft an ideal dividend policy that would appeal to stockholders the most as a way of returning value to them by virtue of their sacrifices made. This is because the payment of dividend and the payout ratio conveys to shareholders how that the company is profitable and financially strong. Dividend policy can affect the value of the firm and in turn, the wealth of shareholders. Dividend payout ratio can predict future earnings and hence be used to determine financial performance.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Ongiri (2002), one of the major reasons why Kenyans invest in shares is to earn dividends as a return for their capital. A capital gain is the increase in market price per share as a result of undertaking profitable projects. Therefore investors invest in shares with the aim of earning dividend income or capital gain. The amount of dividend paid to the investors depends on the company's dividend policy (Pandey, 2005). Profit arrangement is the assurance of which bit of money income ought to be held in the firm for reinvestment and which assets are paid out to financial specialists from either present or aggregated held income (Kania & Bacon, 2005).Gitman (1998) says that dividend policy involves the firms decision to pay out earnings or retain them for reinvestment purposes. It is an integral part of a firm's financial decision as the payout ratio determines the amount to be retained in the firm as a source of internal financing.

There is impressive level headed discussion on how profit choices influence money related development. Ponders by (Dickens,2012) built up that profits convey esteem related data about a firm that income and other budgetary factors neglected to impart; one case in which this is genuine is for the situation where profit examples are profoundly unpredictable while profits are smooth, profits can preferred depict productivity potential over profit (Ross,2012). Profit installments and firm size likewise emphatically contrasted and profit payout (kania,2005). This backings administration sentiments with respect to the issuance of profits to incorporate the yearning to keep up access to value

cash-flow to subsidize proceeded with capital uses and firm development through stream of money to stockholders (Varouj,2013).

This study was guided by profit unimportance hypothesis, winged animal close by hypothesis and data substance or flagging hypothesis. (Miller,1961) contended that profit strategy has no impact on either the estimation of a firm or its cost of capital. MM expressed that profit strategy is superfluous and that the estimation of the firm is controlled by its fundamental income control and its hazard class . Winged creature In Hand Theory was produced by (Gordon,1963) as a reaction to Modigliani and Miller's profit insignificance hypothesis. The hypothesis recommends that financial specialists are by and large hazard opposed and append more hazard to guaranteed future profits and capital additions than to current profits. Therefore streams profits (Bird in the Hand) decrease financial specialist instability and results in higher esteem in the association's stock. Data Content or Signaling Theory expresses that financial specialists see profits as signs of administrations conjecture of income. In the event that, for example, speculators anticipate that an organization's profit will increment by 5%, then the stock cost for the most part won't change essentially on the day the profit increment is declared (Ross, 1977).

Most listed financial institutions 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. Most financial institutions firms listed at the NSE have clearly defined dividend policies that are in line with the general dividend practice in the industry (NSE, 2015).

1.1.1 Dividend Decisions

Alludes to the approach that the administration figures with respect to income for dissemination as profits among shareholders. Profit choice decides the division of income between installments to shareholders and held profit. The Dividend Decision, in corporate fund, is a choice made by the chiefs of an organization about the sum and timing of any money installments made to the organization's stockholders. The Dividend Decision is an essential part of the present day corporate world (Higgins, 2012).

According to Profilet and Bacon (2013) three profit arrangements have developed as the most broadly upheld all through the back group. The principal approach is the smoothed leftover profit strategy. The reason for this strategy is that the yearly/quarterly change in the supreme dollar measure of the profit is kept to a base. The profit per share is kept stable and is just changed if the long haul gainfulness gauge of the firm has been balanced. The second profit approach is alluded to as the unadulterated lingering profit strategy. This approach, which puts an expansive accentuation on essential investigation, takes a gander at the correlation between a company's arrival on value and the rate of give back that a financial specialist could accomplish an option wander. Once a firm has decided their ideal capital spending plan and the suitable capital has been designated to

interior ventures, the staying leftover assets can then be utilized to pay-out a profit as needs be. The third profit approach is the steady pay-out lingering profit arrangement. This approach consolidates the possibility that an organization ought to work to guarantee that the profit pay-out proportion stays steady.

Once the organization chooses whether to pay profits, they may build up a fairly perpetual profit approach, which may thus affect on speculators and view of the organization in the monetary markets. What the supervisors choose relies on upon the budgetary circumstance of the organization now and later on. It likewise relies on upon inclinations of financial specialists and potential investors' as well as their attitude towards risk (Baker, Theodore & Gay, 1990).

1.1.2 Financial Performance

Its a subjective measure of how well a firm can utilize resources from its essential method of business and create incomes. This term is additionally utilized as a general measure of an association's general budgetary wellbeing over a given timeframe, and can be utilized to analyze comparative firms over a similar industry or to think about enterprises or divisions in collection (Amidu & Abor 2006)

Measures of after-duty rates of return, for example, the arrival all things considered aggregate resources (ROA) and the arrival on aggregate value (ROE), are generally used to evaluate the execution of firms, including business banks (Allen, 1988). In monetary organizations, investigators have utilized ROA and ROE to survey industry execution and

conjecture slants in market structure as contributions to factual models to anticipate disappointments and mergers and for an assortment of different purposes where a measure of benefit is wanted. For instance in banks, profitability is determined from the interest spreads between loans and deposits, as majority of its income is from interest income. As productivity is resolved from income and costs, banks need to nearly screen the variables that influence these two determinants (Bennaceur, 2008).

Determinants of money related execution are typically different into inside and outside components. A few studies were nation particular and few of them considered board of nations for auditing the determinants of benefit (Allen, 1988). In general these studies suggest that the determinants of money related execution for the monetary foundations can be partitioned into two gatherings; inward and outer variables. These studies determine (ROA),(ROE),(ROCE) and (NIM) as the reliant factors and considering the inside and outside elements as free factors.

1.1.3 Dividend Decisions and financial performance

Normally investors require a return on their investment. In the recent periods several investors have discovered the variability of investing in the stock exchange in order to earn dividend or capital gains. This has resulted in firms seeking to be listed in the Nairobi Stock Exchange(NSE) so as to raise funds for investment purposes from the general public (Tirinongo, 2004). The advancement of an economy requires development of beneficial exercises, which thusly is the consequence of the capital arrangement, which is the capital load of the nation. The adjustment in the capital load of

the nation is known as venture. Venture is key variable for capital arrangement. Venture advances financial development and adds to a country's riches. Financial specialist craving to procure some arrival from the venture, with no arrival there is no any speculation. Venture will piece, if there is no arrival. The aggregate expected return incorporate two segments one is capital pick up and other is profit.

In the capital market, all organizations work with a specific end goal to produce income. Shareholders make interest in value capital with the desire of making winning as profit or capital increases. Along these lines, shareholders riches can increment through either profit or capital pick up. Once the organization procures a benefit, it ought to choose what to do with the benefit. It could be kept on holding the benefit inside the organization, or it could pay out the benefit to the proprietors of the organization as profit. Profits are installment made to stockholders from a company's gaining consequently to their speculation. Profit strategy is to decide the measure of income to be conveyed to shareholders and the add up to be held or reinvestment in the firm. The target of a profit strategy ought to be to expand shareholder's riches position. Held income are utilized for making venture as a part of good speculation openings, which thus increment the development rate of the firm. What and the amount it is attractive to pay profit is dependably a questionable point since shareholders expect higher profit from enterprise, however organization guarantee towards putting aside finances for amplifying the general shareholders' riches.

1.1.4 Listed Financial Institutions

Financial institution is an institution that provides financial services to its clients. The most important financial service that they provide to their clients is acting as financial intermediaries. Most financial institutions are regulated by the government. Under NSE listing such institutions fall under the following three sectors; banking, insurance, investment and they include: commercial banks, insurance companies, pension funds, savings and loans, mutual funds, investment funds, financial companies, money market funds and credit unions.

The listed firms have their ownership structure in terms of shares which are traded at the securities market; the shares can be preferential or ordinary shares. Weidinger and Platts (2015) point out that an increase in share price denotes an increase in both a company's value and shareholders wealth. The NSE market Capitalization as at end of December 2015 was Kes. 1,731.97 billion Where the Kenyan banking sector remained sound in consideration that the Kenyan financial sector is developing and deepening faster than the overall economy. As at December 2015, the portion of total market capitalization held by the banking sector stood at 36.5per cent being the highest among the sectors while listed insurance firms accounted for 5.6 per cent only (www.nse.co.ke).This difference is attributed to rate of demand for shares of the respective firms. The demand is determined by a firm's performance mostly financial which pushes shares prices up and in turn increasing market capitalization. NSE (2015) defines market capitalization as an estimation of the estimation of a business that is acquired by duplicating the quantity of shares extraordinary by the present cost of a share. What baffles most investors in the

NSE is the strategies that the firms adopt and how they are related to their impressive performance in the market.

1.2 Research Problem

The relevance of investment in the modern world has become increasingly important. Most investors want extra return for investing in the firm, these returns is normally in the form of capital gain or dividend income. In Kenya, for example land as a property used to be the preferred form of investment but increasing investors are looking for user friendlier forms of investing and the stock market is an obvious choice. Most of these investors are interested in dividend but all are interested in increased value (Baldwin et al., 2010). One of the focal issues in corporate back has been the profit choice of a firm, which has dependably been considered in connection to an association's financing and speculation choices. The relationship among these two choices has offered different conversation starters. What amount ought to a firm pay as profit? How does a profit payout strategy impact valuation of a firm? Does a company's choice to disperse money compare to its financing and contributing choices? Ought to money be paid by repurchasing stocks or by raising profits to shareholders? What is the result of changes in profit arrangement expecting unfaltering financing and speculation choices of a firm? Numerous studies have been done trying to give answers to these inquiries yet puzzle still encompasses the profit choice.

Legally firms are not required to adopt a specific dividend payout ratio, however dividend distribution do face legal restrictions. For instance, the dividend should not be paid out of capital unless during liquidation. Financial signaling theory affirms that the dividend payout ratio might be utilized to pass on data. Data, as opposed to profits itself, influences share costs. The installment of profit and the payout proportion passes on to shareholders how the organization is gainful and fiscally solid. This thusly causes upsurge sought after for the company's shares bringing on an ascent in their costs. At the point when a firm changes its profits payout proportion, speculators accept that it is because of a normal change in the firm productivity which will keep going long. An expansion in payout proportion signs to shareholder a long haul increment in company's normal income. In like manner, the costs of shares are influenced by changes in profits (Bhattacharya, 2009).

Amidu (2010) examined whether dividend policy influenced firm’s performance in Ghana. The investigations were performed utilizing information got from the money related proclamations of recorded firms on the Ghana Stock Exchange for an eight-year time span. Common Least Squares model was utilized to gauge the relapse condition. The outcomes demonstrated positive connections between ROA, profit strategy, and development in deals. The outcomes likewise uncovered negative relationship between profit for resources and profit payout proportion, and influence. (Howatt,2011) likewise reasoned that positive changes in profits are connected with positive future changes in income per share. Conversely, (Lie,2012) contends that there is constrained confirmation that profit paying firms encounter ensuing execution upgrades

A number of studies in the area of dividend policy 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 dividend decisions. 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 dividend decisions. Ndirangu (2014) studied impact of profit approach on future budgetary execution of firms at NSE. He focused on retained and distributed earnings, change in cashflows and net operating assets but did not look at the dividend decisions. Mutisya (2014) studied the relation among dividend payout and monetary execution of firms at NSE. However he only concentrated on dividend payout ratio. Bulla (2013) analysed the elements affecting profit arrangement of freely recorded organizations at the Nairobi Securities Exchange and discovered that income were fundamentally emphatically connected with profit payout for organizations required in the study.

It was against this backdrop of available research on the problem area but with contradictory results that this research is guided. It was therefore research purpose determining relation among dividend decisions on monetary execution of financial institutions listed in Nairobi Securities Exchange, identify the policies they use and make recommendation on the dividend policies that maximize shareholder's wealth while at the same time solving the agency problems between the shareholders and the management.

1.3 Research Objectives

Research objective was examining relation among dividend decisions and monetary execution of listed financial institution.

1.4 Value of the Study

Local and foreign investors may be interested in the study in order to determine how to maximize their returns in the stock exchange over time. This may enable the investors to determine where to invest in order to maximize their returns. Corporate management may be interested in this study in order to determine how to solve their agency problems with the shareholders, to enable the management to determine the desire of their principals so as to maximize it over time.

Regulatory agencies such as NSE and capital Market Authority (CMA) can use the study to regulate the operations of listed banks in the securities exchange. This may enable the regulatory authorities to understand how to set rules and regulations governing the operations of the stock exchange so as to make sure that managers do not exploit the general public.

Investors may understand why companies follow a given dividend policy when declaring dividends, which might be different from their expectations. The study may also be significant to academicians in shedding light on whether dividend policies have any effect on financial performance. It may also be a source reference to academicians who would carry out a similar research and those who want to gain an understanding in this area.

The findings from the study may have value to scholars intending to do further research on relationship between dividend decisions on financial performance during theory building. The study findings can form a premise to identify dividend decisions adopted by part of the financial sector players in the process of studying the entire financial sector.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

Part sought reviewing various literary and scholarly writings and reviews by scholars and researchers regarding dividend decision. It also covered the theoretical explanations and the empirical expositions studied by previous researchers and scholars pertaining dividend decision and its application by firms. The chapter also gave a brief overview of various theoretical modeling and empirical investigations by financial economists

2.2 Theoretical Review

Several theories were developed to explain the dividend policy puzzle. These included modigliani-miller dividend irrelevance theory, signaling theory, and bird in the hand theory. Three theories were discussed below.

2.2.1 Modigliani-Miller Dividend Irrelevance Theory

(Modigliani,1961) exhibited a standout amongst the most powerful profit speculations and despite the fact that it was created for over 50 years prior, it is still observed as a standout amongst the most regarded hypotheses. At the point when the hypothesis was exhibited in the article "Profit approach, development and the valuation of shares", it gave another benchmark and changed the view that both professionals and scholastics had towards profits. Prior to the distribution of Modigliani-Miller's profit insignificance hypothesis, the general view was that profits were very corresponded to the estimation of

the stock (Baker,2009). As the name of the hypothesis proposes, it expresses that under immaculate capital markets the profit approach is autonomous to the cost of firm and it doesn't make a difference whether the organization has high or low profit payouts.

The theory of Miller and Modigliani, (1961) expect there are no assessments, or the duty rate on money profits and expense rate on capital additions are equivalent; that there is no exchanges cost for the way toward offering or purchasing offers in this way if the financial specialist needs money, he/she will have the capacity to offer his/her shares without losing commissions and charges rather than money profits; that the speculator is completely sane in his/her choices; and that there are no organization costs which implies that organization chiefs who appropriate low money profits don't utilize organization benefits to accomplish individual objectives that may hurt the organization (Jensen,1992). Moreover, the hypothesis accept that the organization works under a full and effective market which implies that the data is accessible and available to all in the meantime with no expenses, and the stock costs mirror this data and is impacted by it right now it is given; and that there is no data crevice and the organization works in a full and productive market. At long last, the hypothesis accept that the future point of view toward the execution of the organization is homogeneous among all financial specialists, including data and desires among chiefs and speculators.

Based on the above assumptions, Miller and Modigliani have explained the irrelevance of dividend as the crux of the arbitrage argument. The arbitrage process refers to setting off or balancing two transactions which are entered into simultaneously. The two

transactions are paying out dividends and raising external funds to finance additional investment programs. If the firm pays out dividend, it will have to raise capital by selling new shares for financing activities. The arbitrage procedure will kill the expansion in share esteem (because of profits) with the issue of new shares. This makes the speculator not interested in profit income and capital picks up as the share esteem is more reliant on the future income of the firm than on its present profit arrangement.

(Modigliani) additionally contend that the shareholders can build their own particular custom made profits. That is, if the organization does not pay profits but rather the shareholder lean towards some profit, they can offer and proportionate extent of his stocks henceforth making a hand crafted profit. The inverse is obviously likewise genuine, if the organization pays a higher profit than the shareholder inclines toward he can utilize the surplus profits to purchase extra stocks (Brigham,2011). These two contentions talked about above were the hidden presumption of the immateriality speculation and as indicated by these contentions shareholders ought to be uninterested between capital increases and profits. This thusly clarifies why the shareholders are unwilling to pay a higher cost for profit paying stocks which in turns make the topic of profits unessential. Along these lines, the hypothesis recommended that under immaculate a market, the organization's profit payout approaches don't influence the share estimation of an organization. This research intended to ascertain the validity of this theory in the Kenyan context.

2.2.2 Signalling Theory

It has its sources in (Lintner,1956) considers who uncovered that the cost of an organization's stocks as a rule changes when the profit installments changes. Despite the fact that Modigliani and Miller (1961) contended for the profit unimportance they additionally expressed that in this present reality slighting the ideal capital markets, profit gives a "data substance" which may influence the market cost of the stock. Numerous specialists have from that point been building up the flagging hypothesis and today it is viewed as a standout amongst the most compelling profit hypothesis.

(Bhattacharya,2009) displayed a standout amongst the most recognized studies with respect to flagging hypotheses which expresses that profits may work as a flag of expected future money streams. An expansion in the profits demonstrates that the supervisors expect higher trade streams out what's to come. The exploration depends on the suspicions that outside speculators have blemished data with respect to the organization's future money streams and capital increases. Another imperative presumption is that profits are exhausted at a higher rate contrasted with capital increases. (Bhattacharya,2009) contends that under these conditions despite the fact that there is a duty hindrance for profits, organizations would pay profits keeping in mind the end goal to send positive signs to shareholders and outside speculators.

Numerous investigates have been led with a specific end goal to test if the flagging hypothesis applies in this present reality and there exist diverse feelings in regards to the relevance of the flagging hypothesis. Asquith and Mullins (1983) gave experimental

confirmation for the flagging hypothesis. They contend that an expansion of profit installments tends to build the shareholders riches.

2.2.3 The Bird in Hand Theory

It was initially specified by (Lintner,1956) and it has been bolstered by different scientists including (Gordon, 1963). (Al-Malkawi,2008) affirms that in a universe of instability and data asymmetry, profits are esteemed uniquely in contrast to held income . "A feathered creature close by; is worth more than two in the hedge"; Because of vulnerability of future income, financial specialists will regularly have a tendency to favor profits to held income.

This is because of the high level of vulnerability identified with capital additions and profits paid later on. Current profits are more unsurprising than capital additions, since the stock cost is dictated by market compels and not by the administrators (Keown,2007). Profit model depends on a few suspicions; in the first place, that the organization is all value financed and no outside financing is utilized. This suggests the organization funds all venture with held profit, besides, interior rate of return, cost of capital and the maintenance proportion is steady lastly that the organization has an unceasing life.

(Lintner's,1956) principle contentions towards the winged animal close by hypothesis depends on that most organizations are traditionalist in their financing arrangement and the profit installments are in this manner in light of an ideal payout proportion. The main

component that adds to deviations from the ideal payout proportion is expected changes in the organization's benefit, and if the benefit builds the profit payout ought to increment in similar extents (Myers,2004). Be that as it may, instability with respect to future benefits likewise affects the organization's profits. In the event that the assessed chance later on is higher than the present hazard, the organization may diminish the profit payout proportion keeping in mind the end goal to fence to diminishing future benefits (Friend,1964.). The fowl close by hypothesis has been liable to a lot of feedback and rivals to the hypothesis expresses that it avoids vital components.

(Keown,2007) contend against the hypothesis and say that increments in current profits don't diminish the peril of the organization; it does in actuality work the other way. Since if an expansion in profit installments are made the supervisors need to issue new stocks keeping in mind the end goal to raise the required capital. Hence a profit installment just exchanges the hazard from the old to the new shareholders. Be that as it may, even this impediment the hypothesis. (Keown,2007) contend that there are still numerous individual speculators and money related organizations who consider that profits are critical and it is subsequently of significance to incorporate the hypothesis despite the fact that it has a few restrictions.

2.3 Determinants of Financial Performance

There are several factors that affect firm’s financial performance which include financial leverage, firm size, dividend policy and liquidity as explained below:

2.3.1 Financial Leverage

Levarage alludes to the extent of obligation to value in the capital structure of a firm. The financing or influence choice is a noteworthy administrative choice since it impacts the shareholder's arrival and hazard and the market estimation of the firm. The proportion of debt equity has suggestions for the shareholders' profits and hazard, this influence the cost of capital and the market estimation of the firm (Pandey,2005). (Gupta,2010) refered to a few studies indicating opposing results about the relationship between expanded employments of obligation in capital structure and budgetary execution. (Ghosh,2000),reported a positive relationship amongst influence and monetary execution, while (Gleason,2000), demonstrated negative relationship between money related execution and influence level. So also, (Zeitun,2007) observed that obligation level is adversely related with monetary execution.

Different scholars have concentrated on firms' obligation utilize and proposed the determinants of money related influence by reporting that association's obligation value choice is for the most part in light of an exchange off between premium assessment shields and the expenses of budgetary stretch (Upneja,2001). As indicated by the exchange off hypothesis of capital structure, ideal obligation level adjusts the advantages of obligation against the expenses of obligation (GU, 1993) subsequently, utilization of obligation to a specific obligation proportion brings about higher profit for value, in any case, the advantage of obligation would be lower than the cost after this level of capital structure. As such, the more an organization utilizes obligation, the less pay impose the

organization pays, however the more noteworthy its money related hazard. In light of the exchange off hypothesis for capital structure, firms can exploit obligation to improve an arrival on value.

2.3.2 Firm Size

Different scholars have contended that the extent of the organization is one of the elements that have the biggest impact on the stock costs of firms (Allen,1996). However, despite the fact that most of the past studies have inferred that size is a vital component, the estimations of size have fluctuated between studies. (Holder,1998) utilized the normal logarithm of offers as an estimation of the size while (Daunfeld,2009) utilized the logarithm of the quantity of workers with a specific end goal to gauge the size. In this study, a net asset per share was used as a proxy for firm size.

(Hvide,2007) in their study inferred that bigger firms have better execution. (Flamini,2009) proposed that greater firms are more aggressive than littler firms in outfitting economies of scale in exchanges and appreciate a larger amount of benefits. (Athanasoglou,2005) affirm that expansion in organization measure builds the execution of the bank. (Almajali,2012) contended that the extent of the firm can influence its budgetary execution. Be that as it may, for firms that turn out to be astoundingly huge, the impact of size could be negative because of bureaucratic and different reasons (Yuqi,2007).

2.3.3 Dividend Policy

From a wide perspective, a firm's execution can be controlled by its capacity to issue profits, timing of dividend payments and 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 depicts relation among a firm's payment of dividends and its market value. They suggested that there is in certainty an immediate relation among an association's profit strategy and its reasonable worth. It's equally supported by the bird in hand theory. The school of thought by Walter and Gordon (1965) who trust that present money profits are less unsafe than future capital increases supports dividend payments and contend financial specialists lean toward those organizations which pay standard profits, and such profits influence the market cost of 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,2012) found that firm liquidity had huge impact on monetary execution of firms. It is therefore important that companies increase their current assets and decrease current to improve on liquidity.

2.4 Empirical Review

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 subordinate variable influence, return on resources, past income development, profit payout proportion, size and profit per share were the autonomous factors. They reasoned that there existed a positive relationship between profit payouts and future income development. To put it plainly, profit payout greatly affected a company's future execution

(Khan,2011) examined the impact of profit installment on stock costs by taking the specimen of fifty five organizations recorded at Karachi Stock Exchange. Aftereffects of their study demonstrate that profit yield, income per share, return on value and benefit after duty are decidedly identified with stock costs while maintenance proportion has negative connection with stock costs. (Hussainey,2011) concentrated on the effect of profit approach on stock costs. Aftereffects of their study demonstrate the positive connection between profit yield and stock value changes and negative connection between profit payout proportion and stock value changes. Their outcomes assist demonstrate that the organizations' profit, development rate, level of obligation and size likewise cause the adjustment in Stock Price in United Kingdom.

(Khan,2012) endeavored to clarify the impacts of profit declarations on stock costs of compound and pharmaceutical industry in Pakistan. The study connected Panel information to clarify the relationship amongst profits and stock costs in the wake of controlling the factors like Earnings per Share, Retention Ratio and Return on Equity. The study demonstrates that Cash Dividend, Retention Ratio and Return on Equity have huge positive connection with securities exchange costs and fundamentally clarifies the varieties in the stock costs of concoction and pharmaceutical segment in Pakistan while Earnings Per Share and Stock Dividends have negative immaterial connection with stock costs. This paper promote demonstrated that Dividend Irrelevance Theory is not pertinent on account of concoction and pharmaceutical industry of Pakistan.

(Baker,2012) have utilized overview procedure to take the supposition of Indonesian supervisors about the elements impacting profit arrangement, profit issues, and clarifications for paying profits. Consequences of their study demonstrate that Indonesian administrators consider strength of income and level of present and expected future profit are the most imperative determinants of profit approach. Their outcomes advance show that profit arrangement influences firm esteem and Indonesian directors consider diverse profit speculations like flagging, cooking, and life cycle hypotheses in outlining their profit strategies.

Wanjiru (2015) did a study on the Effect of Dividend Pay out Ratio on the Financial Performance of Companies on NSE. illustrative research outline was connected in this study. The number of inhabitants in enthusiasm for this study comprised of all the 62

firms cited in the NSE. In this study accentuation was given to optional information which was acquired from the monetary proclamations covering the years 2011-2014 for firms that declare profits. The set up that profit payout proportion had a positive and critical influence budgetary execution of organizations recorded in the NSE for the time of the study.

Ndirangu (2014) researched impact of dividend policy on future financial performance of firms at NSE. It adopted a co-relational research design. After the screening process, the sample size was 43 and their financial statements for the period 2009-2013 were studied. A relapse model was resolved to build up the relationship between measures of acquiring appropriation and its impact on future profit of the firm. The discoveries bolster the position that the positive relationship between current profit payout and future income development depends on the free income hypothesis. The outcomes additionally bolster the tried and true way of thinking that essential gaining segments are valuable for deciding relationship with future essential income, while different parts are not as helpful

Tuigong (2015) completed a study on the impacts of profit approach on share cost of firms recorded at the Nairobi securities trade, Kenya. The study uncovered that there was a measurably noteworthy positive relationship between money profit and share costs while there was factually unimportantly negative relationship between share profit and share costs. This inferred profit strategy influences the share cost and that expansion in trade profit would come about out increment in share cost for organizations recorded at the Nairobi Securities Exchange, Conversely, an increment in share profit would bring

about an inconsequential lessening in share cost for organizations recorded at the Exchange.

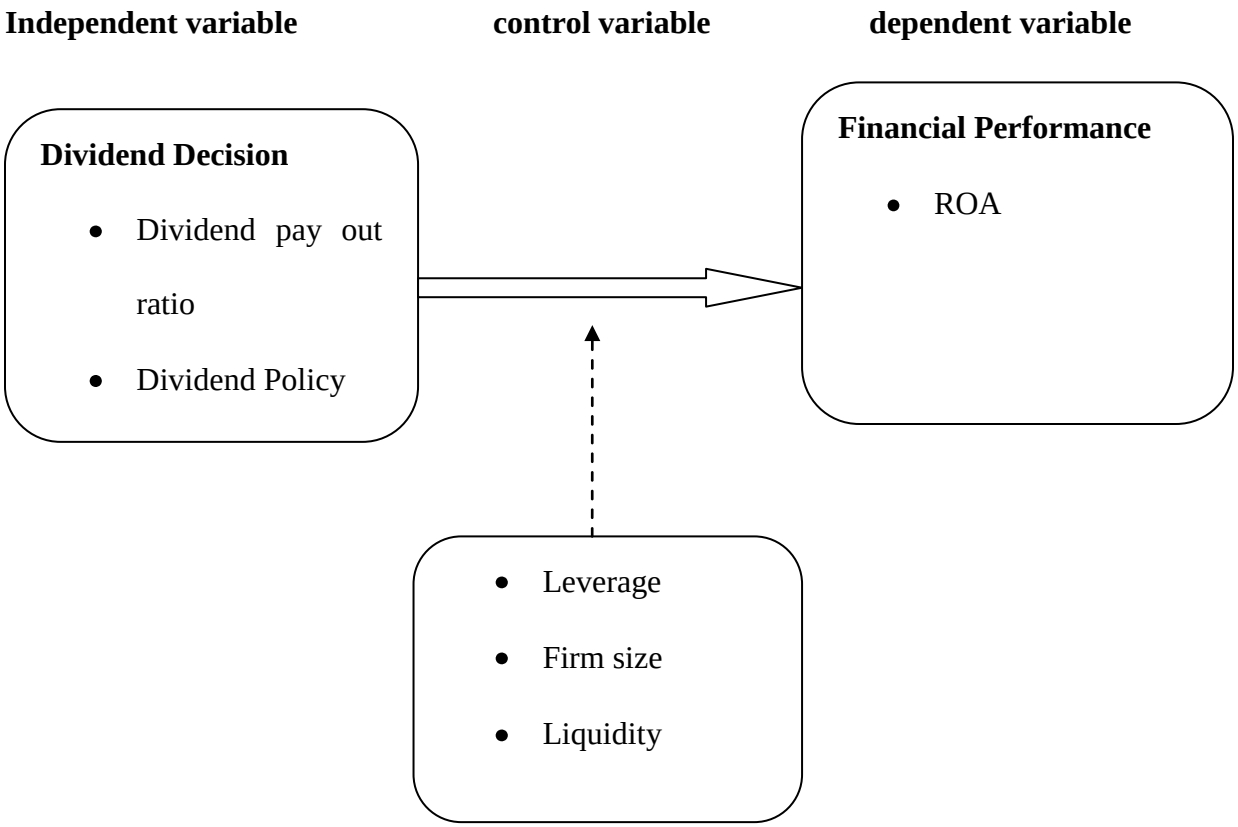
Chumari (2014) conducted research determining relation among dividend payout and monetary execution of firms listed in Kenya over five year period (2008 to 2012). Secondary data was obtained from the NSE and financial statements of thirty firms excluding banks and Insurance companies were analyzed. Descriptive 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.

Mutisya (2014) studied relation among profit payout and money related execution of organizations recorded 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 relation among profit payout and company execution. The results showed direct and significant relation among 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.

2.5 Conceptual Framework

The one above gives a portrayal on how the factors are identified with each other. The factors characterized here are the free (logical) and the needy (reaction) variable. An autonomous variable impacts and decides the impact of another variable. The autonomous variable in this study was profit choices. Subordinate variable is that element which is watched and measured to decide the impact of the free factor. The needy variable was budgetary execution. Control factors are superfluous elements, conceivably influencing the test, that are kept consistent to minimize their consequences for the result. In this study the control factors were firm size, liquidity and influence.

Figure 2.1: Conceptual Framework



2.6 Summary of Literature Review

Allen, Bernardo and Welch (2010) 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). Literatures from past studies reveal that most researchers have concentrated in the relation among profit payout and firm execution and just took a gander at profit payout proportion as the main component of profit approach. In Kenya, few studies have analyzed the dividend decisions of firms and more so how the dividend decisions influences financial performance of the listed financial firms. This research aimed at bridging this gap by looking at the effect of dividend decisions on financial performance of listed financial institutions in Kenya.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

Part focused on design research, populace interest, data collection, sources and analysis method.

3.2 Research Design

Is study design that defines the study type. It is a deliberate plan of the measures, variables and the instruments to be connected in the gathering and investigation of the got information with a specific end goal to accomplish the destinations of the study in the most proficient and viable 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. (Cooper,2011) define descriptive research design as a design used to describe behavior or characteristic of a population being studied. The design fit the proposed study which aimed to determine the relationships between variables that is dividend decision making and financial performance. Further, the design was dependable, valid and generalizable in this kind of a research in that it was good for the purpose of data collection and analysis.

3.3 Population

(Mugenda and Mugenda,2003) characterize populace as a whole gathering of people, occasions or questions having normal noticeable qualities. Therefore, section looked at population the researcher wished to study and it is from the results of this group that the

results were generalized to the entire population. The target population in this study was all the 15 financial institutions listed in The Nairobi Stock as at 31st December 2015. (As per Appendix I)

3.4 Sample Design

A sample means a subject of the whole population, which is selected and analyzed, and the results obtained are generalized to represent the whole population. In the research, the researcher generated a sample from the NSE. Since there are only 15 listed Financial Institutions in The NSE as at December 2015, all companies which were actively trading between 2011 and 2015 were studied.

3.5 Data Collection

Audited financial reports of the 15 firms for the period 2011 to 2015 were obtained from the NSE. From the financial statements, the information to be 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 was 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 impact of profit decisions on monetary execution of listed financial institutions at the NSE over the five-year period. Regression analysis was performed on the data to test any effect of dividend decision (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 included dividend payout, dividend policy, size of the firm, liquidity 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 (net income / average total assets)

X_1 = Dividend pay out measured by dividend pay out ratio (Dividends/ Net income)

X_2 = Dividend policy measured by Dividend per shares (DPS) (Earnings to ordinary shareholders/Number of ordinary shares)

X_3= Liquidity measured by current ratio (Current Assets/ Current Liabilities)

X_4= Size of the firm (log of total assets)

X_5 – Leverage measured by debt-to-equity ratio (Total debt / Total Equity)

3.7 Test of Significance

F-test was used to test the joint significance of all coefficients and t-test for the test significance of individual coefficients. The significance of the regression model was determined at 95% confidence interval and 5% level of significance.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

Part shows research findings and results considering objective.

4.2 Results

The analysis regression was directed utilizing measures of ROA and free factors. Trial of criticalness was done for all factors examined utilizing t-test at 95% level of hugeness. From the perception any p-esteem that is less 0.5 was regarded to have huge association with the reliant variable, else the relationship was viewed as irrelevant. The balanced Rsquare was utilized to gauge the level of inconstancy of the needy variable because of the adjustments in the free factors. The results are indicated in sections 4.3 and 4.4 while source data is presented in a tabular format in appendices 2 to 5. The researcher used annual data for ROA, dividend payout, dividend policy, size of the firm, liquidity and leverage for 15 financial institutions listed in the NSE.

4.3 Descriptive Analysis

The summary of statistics of variables included in the regression model is presented in table 4.1 below.

Table 4.1: Descriptive Analysis

	Mean	Std. Deviation
ROA		
2015	2.5115	2.064
2014	2.5289	2.029
2013	2.5831	2.168
2012	2.5333	2.048
2011	2.6178	2.260
SIZE (log of total assets)		
2015	5.9744	.7225
2014	5.0206	.6072
2013	3.7655	.4554
2012	3.6149	.4373
2011	3.4641	.4191
DPR		
2015	.4905	.0586
2014	.4771	.0571
2013	.4607	.0550
2012	.4380	.0523
2011	.3922	.0469
LIQUIDITY		
2015	.6640	.5686
2014	.6140	.5267
2013	.5787	.4816
2012	.4780	.4292
2011	.4140	.3929
DPS		
2015	1.8843	3.6007
2014	1.7814	3.5621
2013	1.6593	3.7238
2012	1.4864	3.2026
2011	1.3386	2.8284
LEVERAGE		
2015	1.0380	.9689
2014	.9693	.9252
2013	.6433	.3406
2012	.4427	.0985
2011	.4193	.1867

Of the financial institutions studied, the mean ROA decreased from 2.6178 in 2011 to 2.5115 in 2015 however, the results suggest that have a relatively average return on

assets. With a standard deviation ranging between 2.25 and 2.06 the implication is that financial institutions ROA varies significantly for financial institutions in NSE. The descriptive statistics for exetent firms measured by log of total assets indicates a rising mean of 3.4641 in 2011 to 5.9744 in 2015, a standard deviation ranging between 0.4191 and 0.7225. This implies that size of the firms for financial institutions vary slightly. The dividend payout ratio measured by dividends; net income revealed an increasing mean of 0.3922 in 2011 to 0.4905 in 2015, standard deviation ranging between 0.0469 and 0.0586.This suggests that the dividend payout ratio of financial institution varies slightly as well. The liquidity measured by Current Assets/ Current Liabilities showed an increasing mean of 0.4140 in 2011 to 0.6640 in 2015, standard deviation ranging between 0.3929 and 0.5686 suggesting that the liquidity of financial institution varies slightly too. The Dividend policy measured by Earnings to ordinary shareholders/Number of ordinary shares had an increasing mean of 1.3386 in 2011 to 1.8843 in 2015, standard deviation ranging between 2.8284 and 3.6007. This depicted that the dividend policy of financial institution varies significantly. The Leverage measured by Total debt /Total Equity had an increasing mean of 0.4193 in 2011 to 1.0380 in 2015, standard deviation ranging between 0.1867 and 0.9689 implying that the leverage of financial institution was low and varied inconsistently.

4.4 Quantitative Analysis and Relationship between Variables

4.4.1 Pearson and Spearman's Correlations

Table 2 below shows the Pearson's correlation coefficient generated from the data. Pearson's correlation analysis is used to investigate the relationship between variables in the study.

Table 4.2: Pearson's Correlation Coefficient

		Correlation
Return on Assets	Pearson Correlation Sig. (2-tailed) N	1 15
Dividend payout ratio	Pearson Correlation Sig. (2-tailed) N	-.425** .028 15
Dividend policy	Pearson Correlation Sig. (2-tailed) N	.263** .006 15
Liquidity	Pearson Correlation Sig. (2-tailed) N	.440 .0309 15
Size	Pearson Correlation Sig. (2-tailed) N	.301 .001 15
Leverage	Pearson Correlation Sig. (2-tailed) N	.159 .007 15

From the table, all the factors have a positive correlation with the dependent variable. This indicates that, the dividend decisions has a positive association with their financial performance. A correlation value of 1 indicates a presence of a perfect association between the variables. The magnitude of the association (+ or -) indicates the nature of

association (positive or negative association). Based on these intervals, the table illustrates that, dividend decisions of the financial firms and ROA has a correlation coefficient of 0.06065. This is an indication of a weak positive association between liquidity and financial performance. Also, capital structure and the financial performance of financial institutions has a positive correlation. This is according to the obtained coefficient of 0.75 indicating that the two variables are strongly associated. Capital structure and liquidity have a correlation of 0.149603.

4.4.1 Regression Analysis

A numerous relapse investigation was led to test the impact among indicator factors. The exploration utilized (SPSS V 20) to code, enter and figure the estimations of the various relapses.

Model Summary

This refers to how well the study model explains the changes in the dependent variable. This is measured by adjusted R-square.

Table 4.3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.837[a]	.700	.684	.197

The three independent variables that were studied explain 68.4% of the financial performance depicted by the adjusted R2. Four variables contribute to 68.4% of financial performance, while other factors not studied in this 29 research contributes 31.6% of financial performance. Therefore, further research should be conducted to investigate the other (31.6%) factors influencing financial performance of companies listed in the NSE.

(ANOVA) comprises of figuring that give data about levels of fluctuation inside a relapse model and shape a reason for trial of centrality

Table 4.4: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.262	3	1.754	43.85	0.00207
	Residual	2.257	11	0.04		
	Total	7.519	14			

From the ANOVA insights in table 4.4, the prepared information, which are the populace parameters, had a noteworthiness level of 0.00207 which demonstrates that the information is perfect for making a conclusion on the populace's parameter. The F figured at 5% Level of essentialness was 43.850. Since F figured is more noteworthy than the F basic (esteem = 2.758), this demonstrates the general model was huge i.e. there is a huge relation among profit choices and financial performance.

Table 4.5: ANOVA[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	3.221	0.224		14.37946	.00077
	Dividend Payout Ratio	0.196	0.096	0.1	2.041667	.00659
	Dividend Policy	0.568	0.057	0.511	9.964912	.000765
	Liquidity	0.693	0.087	0.606	7.965517	.006805
	Size	0.771	0.126	0.645	6.119048	.0007530
	Leverage	0.161	0.032	0.129	5.03125	.000171

The coefficient of regression in table 4.4 above was used in coming up with the model below:

Y = 3.221 + 0.196 X1 + 0.568 X2 + 0.693 X3+ 0.771 X4+ 0.161 X5

From the model, taking all factors (dividend payout ratio, firm size, dividend payout ratio, dividend policy and leverage) constant at zero, financial performance was 3.221. The data findings analyzed also shows that taking all other independent variables at zero, a unit increase in dividend payout ratio lead to a 0.196 increase in financial performance; unit increase in firm size will lead to a 0.771 increase in financial performance; a unit increase in leverage will lead to a 0.161 increase in financial performance; a unit increase in liquidity will lead to a 0.6931 increase in financial performance; a unit increase in dividend policy will lead to a 0.568 increase in financial performance. According to the model, all the variables were significant as their P- value was less than 0.05. All the variables were positively correlated with financial performance.

4.5 Summary and Interpretation of Findings

From above regression model, research found out dividend payout ratio, firm size, liquidity, dividend policy and leverage had a positive effect on financial performance. Research depicted 3.221intercept for all years.

Five autonomous factors included (dividend payout ratio, firm size, liquidity, dividend policy and leverage) clarify a generous 68.4% of budgetary execution of financial institutions in NSE depicted by adjusted R2 (0.684). The four factors contribute to 68.4% of financial performance, while different elements not considered in this examination contributes 31.6% of financial performance. Study findings agree with (Miller,1961) who utilized intelligent examination to clarify firms' profit approach. They stated that in a flawless market, the estimation of a firm would be free of its profit arrangement and that

an adjustment in profit strategy would show an adjustment in the administration's perspective of future income hence impact on a firm’s financial performance.

The study established that the coefficient for dividend payout ratio was 0.196, meaning that dividend payout ratio decidedly and altogether affected monetary execution of financial institutions in NSE. It associates to Mozes and Rapaccioli (1998) who analyzed the relationship amongst profits and corporate income. They gave prove that expansive profit payout proportions prompt to a decrease in future income and little profit expands prompt to an expansion in future profit. Mozes and Rapaccioli recommended that the relationship between the profit abatement and future income would not be sure and direct. The findings however contradicts with Benartzi, et al (1997) who found constrained support for the view that profit changes have data content about future income of a firm. They expressed that, while there is a solid past and simultaneous connection amongst profit and profit changes, the prescient estimation of changes in profits appears to be negligible.

The study established that coefficient for firm size was 0.771, meaning that firm exetent decidedly and altogether affected monetary execution of financial institutions in NSE. Azhagaiah Ramachandran (2007) indicated extent of a organization is an essential calculate deciding the productivity of a firm because of the idea known as economies of scale which can be found in the customary neo traditional perspective of the firm. It uncovers that opposing to littler firms, things can be created on much lower costs by

greater firms. As per this idea, a positive relationship between firm size and productivity is normal.

The study also established that the coefficient for leverage was 0.161, meaning leverage decidedly and altogether affected financial performance of financial institutions listed in the NSE. This agrees with Haim and Marshal (1988) who argue that, obligation amplifies the income accessible to shareholders. In any case, this attestation may be substantial if (ROA) is higher than the cost of obligation. For this situation, the more the obligation, the higher (ROE).

Study also revealed that the coefficient for dividend policy was 0.568, meaning that dividend policy decidedly and altogether affected monetary execution of financial institutions in NSE. Likewise, Gordon and Lintner (2012) advanced a theory that shows the relationship between a firm's payment of dividends and its market value. They recommended that there is in certainty an immediate relationship between an association's profit strategy and its reasonable worth.

Study finally determined that the coefficient for liquidity was 0.693, meaning that liquidity decidedly and altogether affected financial performance of financial institutions listed in the NSE. Similarly, (Almajali,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.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

Part shows recommendations, summary, conclusion and recommendations of main discoveries on the relation among dividend decisions and monetary execution of named financial institution in Kenya.

5.2 Summary of Findings

Design research was applied in research. Populace interest in this study was all the 15 financial institutions listed in The Nairobi Stock as at 31st December 2015. In this study emphasis was given to secondary data obtained from monetary articulations covering years 2011-2015 for firms that announce dividends. In order to test the relationship between the variables the inferential tests including relapse examination was utilized to determine relation among dividend decisions and monetary execution of listed monetary institution in Kenya. Study found that five variables contribute to 68.4% of financial performance and increasing unit in profit payout ratio causes 0.196 increase in financial performance; increasing unit in firm size causes 0.771 financial execution increment; increasing unit leverage causes 0.161 peak financial performance; increasing unit liquidity causes 0.6931 peak financial execution; increasing unit dividend policy causes 0.568 financial performance increment. Every one of the factors were critical as their P-esteem was under 0.05. Every one of the factors were emphatically connected with budgetary execution.

Study results and discussion, conclude dividend payout ratio affect the level of financial performance of NSE companies. Conclusion is dividend payout ratio had positive and important affect monetary execution of NSE companies for study period. Research recommends adequate funding should be directed towards dividend payout ratio projects preparation, implementation and maintenance. The study recommend extending and enhancing existing present day vitality utilize and making adequate mindfulness and providing better innovations at moderate costs to manage the financial performance with better expectations for everyday comforts.

5.3 Conclusions

In the nutshell, it could be stated unequivocally from the study that profit arrangement has affirmative impact on listed monetary institutions execution. There is no gainsaying the fact that strict attention paid to dividend policy by financial institutions would lead to a better performance results. It therefore behoves on management to craft an ideal dividend policy that would appeal to stockholders the most as a way of returning value to them by virtue of their sacrifices made. This is because the payment of dividend and the payout ratio conveys to shareholders how that the company is profitable and financially strong. Dividend policy can affect the value of the firm and in turn, the wealth of shareholders. Dividend payout ratio can predict future earnings and hence be used to determine financial performance.

Study results and discussion, conclude that dividend policy affect the level of financial performance of NSE companies. Conclusion is that profit strategy had a positive and significant affect monetary execution of financial institutions recorded in NSE for research period. At the point organization alters its profits payout proportion, speculators accept that it is because of a normal change in the firm gainfulness which will keep going long. An expansion in payout proportion signs to shareholder a long haul increment in company's normal profit.

5.4 Recommendations for Policy and Practice

Study recommends that managers design a profit arrangement which improves financial execution and shareholders esteem. Managers should also reduce their total debts to increase financial performance of firms and shareholder value. It's recommended, in view of the discoveries of this examination that profit strategy is pertinent and that supervisors ought to dedicate satisfactory time in outlining a profit approach that will improve budgetary execution and subsequently shareholder esteem.

Study recommends the companies listed in the NSE should pay more attention to leverage and profitability ratio which influence dividend payout positively. The study recommends that the management of various companies listed on the NSE take cognizance of the findings in this study as a starting point to understanding how industry factors influence the dividend payout ratios of their firms.

The study also recommends that investors use this information to make better decisions in where to invest their funds after evaluating what their interests are. These results should aid them in making decisions on which industries to invest in so as to reap better benefits in terms of dividends. The study also confirmed a relation among profit payout proportion and money related execution of firms operating in NSE. This study therefore recommends diligence in the handling of dividend payout information among the sector players in a bid to ensure that there is inclusivity of the stock market stakeholders. Therefore, policies guiding the sharing of this information should be availed to enhance market control.

5.5 Suggestions for Further Studies

For further studies, it will be interesting to investigate the effect of private sector investment in profit payout proportion on the level of budgetary execution of organizations recorded in NSE since the private developers operate from a different strategic and financial footing from the government. Also, comparing the effect of government and private sector investment in dividend payout ratio on the level of financial performance of companies listed in the NSE could be another line of study that would be interesting to engage in. This research only took into consideration of four years from 2011 – 2015. A study of 10 – 15 years would be recommended. A similar study to be done in other firms not listed in NSE. It can also be done in other Companies with different economies level. The study can be done in other countries

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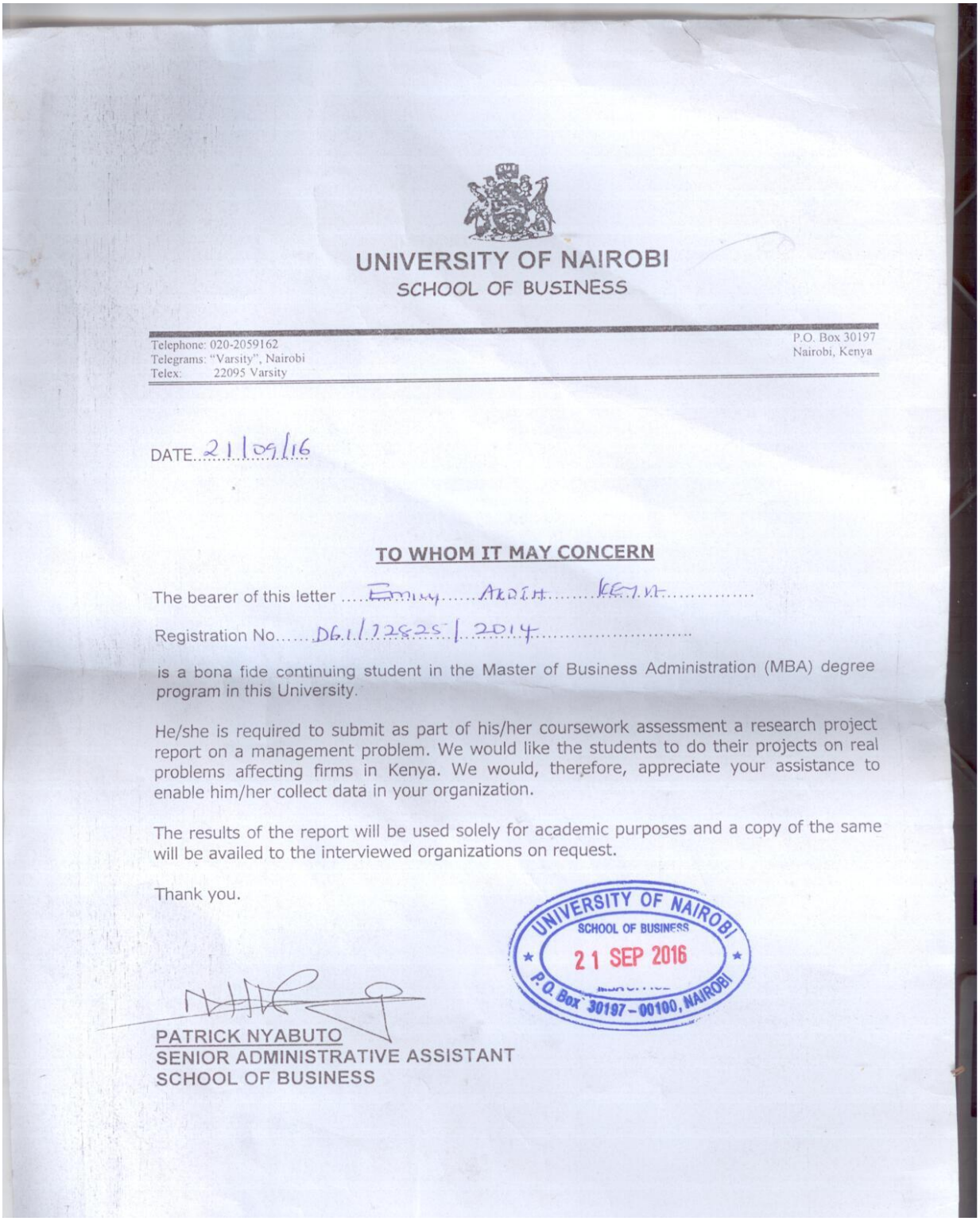
Appendix I: Letter Of Introduction



UNIVERSITY OF NAIROBI
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P.O. Box 30197
Nairobi, Kenya

DATE 21/09/16

TO WHOM IT MAY CONCERN

The bearer of this letter ..... Emmy ..... Akoth ..... Keny .....

Registration No..... D61/72825/2014 .....

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

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

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

Thank you.

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
21 SEP 2016
P.O. Box 30197 – 00100, NAIROBI

PATRICK NYABUTO
SENIOR ADMINISTRATIVE ASSISTANT
SCHOOL OF BUSINESS

APPENDIX II: Listed Financial Institutions In Kenya

1. Barclays Bank of Kenya Ltd
2. Capital Holdings
3. CFC Stanbic Bank Ltd
4. Co-Op Bank of Kenya
5. Diamond Trust Bank of Kenya Ltd
6. Equity Bank Kenya
7. Housing Finance Company of Kenya Ltd
8. ICDC Investment Company Ltd
9. Jubilee Holdings Insurance Co. Ltd
10. Kenya Commercial Bank Ltd
11. National Bank of Kenya Ltd
12. National Industrial Credit Bank Ltd
13. Pan Africa Insurance Holdings Co. Ltd
14. Re Corporation Olympia
15. Standard Chartered Bank Ltd

APPENDIX III: Data

		ROA	Size	DPR	Liquidity	DPS	Leverage
1. Barclays Bank of Kenya Ltd	2015	4.4	5.968	0.393	0.49	1.79	2.75
	2014	4.3	5.015	0.3823	0.4	**1.53**	2.50
	2013	5.8	3.761	0.369	0.38	0.70	1.70
	2012	6.1	3.611	0.3510	0.3	1.00	0.60
	2011	6.8	3.460	0.3144	0.5	1.50	1.00
2. NIC	2015	3.1	6.371	0.542	2.7	1.86	3.01
	2014	3.3	5.354	0.527	2.5	1.57	2.87
	2013	3.3	4.015	0.509	2.3	1.34	0.91
	2012	3.3	3.855	0.484	2	1.28	0.17
	2011	3.1	3.694	0.433	1.8	1.15	0.09
3. Equity	2015	6.6	5.976	0.441	0.45	1.89	2.95
	2014	7.0	5.022	0.429	0.5	1.73	2.87
	2013	7.1	3.767	0.415	0.55	1.50	1.03
	2012	6.6	3.616	0.394	0.6	1.25	0.46
	2011	6.6	3.465	0.353	0.5	0.80	0.5
4. KCB	2015	4.5	7.374	0.414	0.65	2.48	0.58
	2014	3.8	6.197	0.403	0.60	2.33	0.54
	2013	3.5	4.648	0.389	0.56	2.00	0.51
	2012	3.4	4.462	0.370	0.44	1.90	0.46
	2011	3.5	4.276	0.331	0.35	1.85	0.40
5. Standard Bank	2015	4.5	6.670	0.422	0.56	14.20	0.66
	2014	3.8	5.605	0.410	0.51	14.00	0.60
	2013	4.0	4.204	0.396	0.48	14.50	0.58
	2012	3.3	4.036	0.377	0.38	12.50	0.52
	2011	3.9	3.867	0.337	0.30	11.00	0.45
6. Co-op bank	2015	4.1	7.034	0.452	0.63		0.69
	2014	4.2	5.911	0.439	0.58	0.55	0.63
	2013	4.0	4.433	0.424	0.54	0.50	0.60
	2012	2.8	4.256	0.403	0.43	0.50	0.54
	2011	3.0	4.079	0.361	0.34	0.40	0.47
7. Capital Holdings	2015	0.1170	5.896	0.449	0.54	0.52	0.53
	2014	0.0263	4.955	0.437	0.49	0.49	0.48
	2013	0.0339	3.716	0.422	0.46	0.44	0.46
	2012	0.0275	3.568	0.401	0.36	0.39	0.41
	2011	0.0417	3.419	0.359	0.29	0.35	0.36
8. CFC Stanbic Bank Ltd	2015	3.1	6.182	0.497	0.61	0.40	0.57
	2014	2.8	5.195	0.483	0.56	0.36	0.52
	2013	2.9	3.896	0.467	0.53	0.30	0.50
	2012	1.9	3.740	0.444	0.41	0.26	0.45
	2011	1.7	3.585	0.397	0.33	0.20	0.39
9. Diamond	2015	2.9	4.766	0.524	0.46	0.50	0.54

Trust Bank of Kenya Ltd	2014	3.4	4.005	0.510	0.43	0.45	0.50
	2013	3.3	3.004	0.492	0.40	0.38	0.47
	2012	3.0	2.884	0.468	0.31	0.33	0.43
	2011	3.0	2.763	0.419	0.25	0.25	0.37
10. Housing Finance Company of Kenya Ltd	2015	2.07	4.903	0.528	0.50	0.56	0.60
	2014	2.36	4.120	0.514	0.46	0.50	0.55
	2013	2.17	3.090	0.496	0.43	0.42	0.52
	2012	3.0	2.966	0.472	0.34	0.36	0.47
	2011	1.88	2.843	0.422	0.27	0.28	0.41
11. ICDC Investment Company Ltd	2015	0.333	5.159	0.507	0.43	0.60	0.51
	2014	0.365	4.335	0.493	0.39	0.54	0.47
	2013	0.324	3.251	0.477	0.37	0.45	0.45
	2012	0.398	3.121	0.453	0.29	0.39	0.40
	2011	0.109	2.991	0.406	0.23	0.30	0.35
12. Jubilee Holdings Insurance Co. Ltd	2015	0.5302	5.814	0.494	0.59	0.66	0.61
	2014	0.5150	4.886	0.480	0.54	0.59	0.56
	2013	0.5673	3.665	0.464	0.51	0.50	0.54
	2012	0.5626	3.518	0.441	0.40	0.43	0.48
	2011	0.6679	3.371	0.395	0.32	0.33	0.42
13. National Bank of Kenya Ltd	2015	1.3	6.145	0.579	0.52	0.70	0.64
	2014	1.8	5.164	0.564	0.48	0.63	0.59
	2013	1.5	3.873	0.544	0.45	0.53	0.56
	2012	3.3	3.718	0.517	0.35	0.46	0.51
	2011	4.4	3.563	0.463	0.28	0.35	0.44
14. Pan Africa Insurance Holdings Co. Ltd	2015	0.0351	5.808	0.561	0.44	0.76	0.48
	2014	0.1584	4.881	0.546	0.41	0.68	0.44
	2013	0.1340	3.661	0.527	0.38	0.57	0.42
	2012	0.2117	3.514	0.501	0.30	0.49	0.38
	2011	0.1572	3.368	0.449	0.24	0.38	0.33
15. Re Corporation Olympia	2015	0.0868	5.550	0.554	0.39	0.80	0.45
	2014	0.1086	4.664	0.539	0.36	0.72	0.42
	2013	0.1178	3.498	0.520	0.34	0.60	0.40
	2012	0.1003	3.358	0.494	0.26	0.52	0.36
	2011	0.8940	3.218	0.443	0.21	0.40	0.31