

**EFFECT OF CORPORATE GOVERNANCE ON THE DIVIDEND
PAYOUT OF MANUFACTURING FIRMS LISTED AT THE
NAIROBI SECURITIES EXCHANGE**

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DECLARATION

I, the undersigned, declare that this is my original work and has not been presented to any institution or university other than the University of Nairobi for examination.

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

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DEDICATION

Dedicated to my spouse whose unyielding love, support and encouragement inspired me to pursue and complete this research. To our child, gone too soon, who reminded me an unconditional love and gave me a renewed inspiration to finish what I started. I also dedicate it to our parents for their unending support and encouragement.

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ABBREVIATIONS

ANOVA	Analysis of Variance
CBK	Central Bank of Kenya
CEO	Chief Executive Officer
CMA	Capital Markets Authority
DPR	Dividend Payout Ratio
GDP	Gross Domestic Product
NED	Non-Executive Director
NSE	Nairobi Security Exchange
OECD	Organization for Economic Co-operation and Development
ROA	Return on Assets
ROE	Return on Equity
VIF	Variance Inflation Factors

ABSTRACT

The outcome hypothesis gives a suggestion that dividend payout is an output of governance quality. In organizations with poor administration, managers who are self-seekers have the ability of retaining a lot of the cash within the organization, thus there is a high probability of them using that cash for their own personal profits at the peril of the shareholders. Contrary, the argument made by substitution hypothesis is that organizations with poor administration make higher payments of dividends to substitute for the weak administration by the managers. This research set to determine how corporate governance influences dividend payout of manufacturing and allied firms that are listed at the NSE. All 9 firms in this category formed population of this work. Independent variables in this research were corporate governance operationalized as the size of the board members, independence of the team and number of board committees. Control variables were profitability as given by return on equity, firm size given by natural log of total assets, liquidity represented by current ratio and debt financing given by the ratio of total debt to total assets in a year. The response variable was dividend payout given by the ratio of DPS to EPS. A five year period, January 2014 to December 2018, was studied through gathering of secondary data. Descriptive research design method was employed while multiple linear regressions model was applied in analysis of the association between the variables. The data was analyzed by use of SPSS version 22. An R-Square value of 0.925 was produced from the study results which meant that a large percentage, 92.5%, of dividend payout of manufacturing and allied firms that are listed at the NSE are attributable to the seven predictor variables as 7.5% of disparity of dividend payout was related to variables that were not part of this study. Findings of ANOVA highlight how F was important at the 5% level, showing $p=0.000$. Therefore, this case showed that the model was appropriate in explaining the correlations between the differing variables. In addition, it was revealed that board independence and firm size showed a positive and statistically substantial influence on dividend payout while debt financing had a negative and statistically significant influence on dividend payout. Board size, board committees, profitability and liquidity produced insignificant values for this research work. This research recommends that policy makers should develop policies aimed at making boards more independent, because this has a statistically substantial influence on dividend payout among manufacturing and allied firms listed at the NSE.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Corporate failure has become a major issue with respect to firms in developing as well as those countries that are already considered developed. Poor corporate practices were cited as the major contributing factor to the above (Wanyama, 2013). Gakeri (2013) defined corporate governance as firms' practices, the procedures, the system and the process directed towards achievement of objectives (Gakeri, 2013). Where the corporate governance is sound, the investors, their investments and the anticipated returns are safeguarded. According to Okiro, Aduda and Omoro (2015), transparency and proper communication with investors is a sign of above average corporate governance which enables the company to easily and favorably access the competitive financial markets.

Several corporate governance theories have emerged. First, Berle and Means (1932) developed the agency theory by Berle and Means (1932) which shows an agent and principal's constrained relationship characterized by competing interests and mistrust. Conversely, mistrust in the agency theory is replaced with congruence in the stewardship theory. Stewardship theory portrays good performance as the determinant of managers' achievements and success. Going further, the Stakeholders theory includes more stakeholders such as the customers, the suppliers, employees, other organizations and the community (Clarkson, 1994). Additionally, accessibility to resources by an organization is incorporated as a determinant of a company's success in the resource dependence theory (Pfeffer, 1972). Such critical resources include, strategic linkages with other organizations and information resource which is gained through the Board.

The Capital Markets Authority (CMA) developed guidelines to encourage listed public companies in Kenya to adopt good governance practices so as to adequately respond to the increasing relevance of the governance matters in both the growing and emerging economies and for the promotion of regional and domestic growth of the capital market. It also recognizes the good governance contribution in maximization of the value of shareholders, capital formation, protection of the rights of investors and corporate performance (CMA, 2017). However, manufacturing companies' the dividend payout ratios quoted at NSE varies from one firm to the other and therefore the current study seeks to investigate whether it is influenced by the level of governance in a firm.

1.1.1 Corporate Governance

OECD (2015) defined this as the relationship between the management of a company, the shareholders, the board as well as the minority stakeholders. Additionally, a company's corporate governance provides a company with a structure that allows for the proper structuring and attainment of its objectives. Another definition provided by Adams and Mehran (2003) is that corporate governance is the mechanism that gives chance to all company's stakeholders to monitor the operations inside the company both of the management and all other insiders which allows them to protect their own interests. Further, Morin and Jarrel (2001) describe corporate governance as the framework that safeguards as well as monitors concerned actors in the market. The said actors include shareholders, managers, suppliers' staff, the board of administration and clients depending on the type of organization in question.

Good corporate governance practices are the ones where the habitat in which the business is done is candid and reasonable, procedures are straight forward and transparent, and organizations held in charge of their actions. On the other hand,

organizations that have unsteady corporate governance habits lead to wastage, mismanagement and very high levels of corruptions. Corporate governance practices ensure that an organization balances power sharing among its shareholder, the management and the directors which ensure that the shareholder value is enhanced and that other shareholders' interests are protected (Nabil & Ziad, 2014). Effective corporate governance structures ensures reliable and accountable entity and public financial information quality is improved and the efficiency and integrity in the capital market enhanced.

Corporate governance is diverse in nature (Otieno, 2012). Mamatzakis and Bermpei (2015) likewise observed that the current body of knowledge is pointed at different parts of administration and corporate governance that incorporates top managerial staff (directors), remuneration of bank executives, perks and stipends of the senior managers, powers of the CEO structure, how complicated the operations are. According to Olick (2015), the key aspects of administration and corporate governance include board and committee structure, board composition, the guiding processes and the procedures, board independence, aspects of auditing, and the way the corporate entity disseminates and discloses its information to the stakeholder. According to Wasike (2012), corporate governance encompasses; the corporation's board of directors' characteristics, the ownership structure of the corporation, financial transparency and information disclosure.

1.1.2 Dividend Payout

Brockington (2013) defined this as the profits shared as a percentage to shareholders as dividends. It's the ratio of annual dividend per share to profits per share of the firm. The returns of the shareholder is made of two components which are capital or dividend

gain. Both of these factors are influenced by the dividend payout ratio. A higher share price is brought about by a low payout policy since it accelerates earnings growth rate. Less retained earnings and more dividend payouts are brought about by a high payout policy, this reduces the market price per share hence causing slower growth. Firms basically adopt dividend policies based on their business life cycle stage. According to Kapoor (2009) firms with higher growth for instance have fewer projects and large cash flows which enable them to pay their earnings in dividends.

Ross, Westerfield and Jaffe (2002) assert that dividend decisions are vital since they describe the type of funds that go to investors and those that the firm retains for the investment purposes. They give stakeholders essential information regarding the company's performance. Foong, Zakaria and Tan (2007) argue that a firm's investment determines future potential dividends as well as earnings of a firm and affect the cost of capital of firms. Dividend policy of a firm is among the most vital concepts in finance from the perspective of the employees, consumers, regulatory bodies and the government. It can be viewed as a policy that acts as a pivot which is relied on by other financial policies (Sujata, 2009).

The dividend policy guides the finance manager in deciding on how much shareholders will be paid in the form of dividends for their share capital holding in the firm. The main types of dividend policies include; Constant payout ratio under which a firm agrees upon a constant percentage of the profits as dividends. It maintains this amount regardless of whether the firm makes more profits or not. Residual dividend policy payout; where a firm issue out dividends from the amount that remains after all investments have been undertaken. If all profits are used for investment then no dividends are paid out during that period. Stable dividend policy; where a constant

amount of money is to be distributed to every shareholder in the firm. Occasionally firms use the stable plus extra policy where a constant amount of money is maintained as dividend to be issued to every shareholding but an extra amount can be paid when the firm makes huge profits in a particular trading period (Pandey, 2010).

1.1.3 Corporate Governance and Dividend Payout

Theoretically, Majluf and Myers (1984) and Fluck (1998) assert that dividend payout policies have the ability to address agency problems which may exist between business shareholders and insiders. Grossman and Hart (1980) argues that dividend payouts can solve the related agency conflicts through a process of reducing the quantity of free cash flow held by a business manager, who tend to sometimes act in ways that seem not best for the stakeholders.

The outcome hypothesis gives a suggestion that dividend payout is an output of governance quality. In organizations with poor administration, managers who are self-seekers have the ability of retaining a lot of the cash within the organization, thus there is a high probability of them using that cash for their own personal profits at the peril of the shareholders. Therefore there is an expectation of dividend payouts being lower in such organization compared to those with powerful governance techniques. This hypothesis forecasts a positive correlation between the quality of governance and dividend payouts (Aggarwal & Williamson, 2006).

Contrary, the argument made by substitution hypothesis is that organizations with poor administration make higher payments of dividends to substitute for the weak administration by the managers. Investors have made an observation that poorly governed corporations are prone to managerial embedment and logically have an expectation to a large degree of the free cash flow issue. Due to this investors call on to

higher dividends from organizations with weak administration compared to those with powerful administration. A reduction of payment of dividends results in a low free cash flow and thus a reduction of requisition by the self-seekers managers. This hypothesis indicates an inverse relation between dividend payouts and quality corporate governance (Rozeff, 1982).

1.1.4 Manufacturing Firms Listed at the Nairobi Securities Exchange

Established in the year 1954 and registered under the companies Act 1991, the NSE is an organized financial market where various securities of listed firms are issued, bought and sold by individuals and institutions both local and foreign through the services of stockbrokers or dealers. The Exchange is the fourth-largest in the sub-Saharan Africa. It focuses on the exchange of securities issued by the Government and listed firms. The mandate of NSE is to oversee its members and provide a trading platform for the listed securities. The NSE provides the main hub for trading in the secondary market. It provides a trading floor which though available is not commonly in use after being replaced by the automated trading system. Through a wide area network, members trade at the comfort of their offices. The system is efficient, transparent and can handle large volumes of transactions at the same time (NSE, 2019). There are currently 9 manufacturing and allied firms listed at the NSE (NSE, 2019).

Although the CMA act, (Cap.485A) of year 2002, Gazette Notice Number 3362 issued directives on corporate governance practices which public listed companies in Kenya should adhere to, there has been cases of listed companies' failures due to mismanagement of resources and managers opportunistic behavior in carrying out earnings management practices. Some of the affected firms are manufacturing firms listed at NSE such as Mumias Sugar ltd and Unga group ltd, this has resulted in job

loss, closure of companies and a negative effect on the Kenyan Economy (Okiro et al., 2015).

Different manufacturing firms listed at the NSE have been performing differently. While firms like East Africa Breweries Ltd and British American Ltd have posted good results and are able to increase their dividend payout to shareholders, others like Mumias sugar, Unga group and Eveready East Africa Ltd have performed dismally and reduced or failed to pay dividends at all (Aboka, 2018). While the reason for some firm's failure to pay dividends may be due the nature of the environment they are working in and that is not under the control of the management or board, studies have shown a significant link between governance and the performance of these companies.

1.2 Research Problem

Differing objectives by corporate managers and the shareholders as portrayed by individual interests has been discussed by various theories giving rise to corporate governance which is said to minimize the spill over. According to Lamport et al., (2011), organizations that have been studied by different researchers and that portrayed good governance practices have reported a positive impact of governance to the performance and in essence the dividend payout ratio. It is essential for organizations to grasp good governance practices as these aids in avoiding scandals and fraud and also in enhancing the organization's image in the public as a company deserving of debt holder as well as shareholder capital. In addition, good corporate governance helps improve performance, enhance investment atmosphere as well as to encourage economic development (Braga & Shastri, 2011).

In Kenya, cases of corruption have brought about many debates in many business and legal sectors which have in turn influenced the confidence of both local and foreign

investors (Munyuru, 2005). For example, the big number of unresolved cases in court as well as huge losses by such companies as the Kenya Airways, Kenol Kobil and Mumias Sugar, have thrust corporate governance practices into the limelight (Aboka, 2018). Scandals involving poor corporate governance of the directors and managers have been reported in firms like Mumias sugar, Uchumi supermarkets, Kenol Kobil, the near collapse of Unga group, and the discovery of secret accounts by some CMC Motors directors (Murekefu & Ouma, 2012). Kenyan companies need to focus on corporate governance which would mitigate against some of the risks of doing business and in essence improve shareholder wealth by increasing dividend payout or an appreciation in the share price.

Although different researchers have undertaken to investigate corporate governance and dividend payout, the findings have been inconsistent. Some findings were positive on the relationship between the two aspects (Byrne & O'Connior, 2012; Jiraporn et al., 2011; Sawickhi, 2009) while some found a negative relationship between the two (Denis & Osobov, 2008; De Cesari, 2009; Neilsen, 2005). Hence, a consensus has not been reached as to the relationship. Claessens, Djankov and Klingebiel (2000) asserts that some intervening factors which affect a firm's revenue and consequently the dividend payout ratio could contribute to these differing results. Such factors may include; profit after tax, turnover, growth opportunities investment, gross earnings and leverage which are all performance indicators of a firm (Afsari, 2014; Chin et al., 2015; Murekefu & Ouma, 2012). In addition to the conflicting findings, other studies concentrated on a single aspect of corporate governance while some used several aspects of corporate governance by looking at aggregate governance score (Adjaoud & Ben-Mar, 2010). More so, different economies have achieved different levels of

development in their capital markets which could also bring about the differences in the studies.

Studies that have been conducted locally have mostly looked into corporate governance and financial performance and how the two relate. Although Aboka (2018) addressed this relationship on her study by studying commercial banks dividend payout and how they are affected by corporate governance, the study focused on commercial banks which are a different context from the focus of the current study. The link is crucial since the association between corporate governance and dividend payout is different due to different aspects of an organization in relation to exposure to risk, diversification in terms of different sectors, difference in financial and operational activities which influence payments of dividend to the organizations (Akhtar, 2006). Therefore, the current study puts into consideration the difference in sectoral factors in determining the association between governance and dividend policy among listed manufacturing firms at the NSE in order to bridge this identified literature gap. Therefore, this study's intent was to answer the question, how is dividend payout of manufacturing firms listed at the NSE affected by corporate governance?

1.3 Objective of the Study

The study's intent was to determine how corporate governance influences dividend payout of manufacturing firms listed at the NSE.

1.4 Value of the Study

The results would give insight on the understanding of corporate governance theories and practices. It will also be an added research into the pool of knowledge on how governance impacts dividend payouts of firms and also fill the gap on how these variables relate which will be beneficial to other researchers in future. It will be

beneficial to future researchers because it will enable them to identify what has been studied before and seek gaps that have not yet been studied.

The study is beneficial to the manufacturing firms in understanding the linkage between corporate governance and dividend payout, which is essential to having a sound decision-making team with diverse perspectives and capabilities that are critical to the financial success and in enabling trust among companies' stakeholders. To the government and other policy makers, it will be beneficial in aiding the formulation of policies and procedures that would steer manufacturing firms in adopting corporate governance mechanisms that would improve their efficiency which in turn will contribute to the sector performance.

This study is also critical to firms in both the public and private sector who have instituted governance practices in Kenya since it equips them with the knowledge on the ideal application of corporate governance. Additionally it will empower CEO's and directors of private organizations with knowledge on guidelines of corporate governance.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The chapter looks into theories that form the foundation of this study. In addition, previous studies that have been carried before on this research topic and related areas are also discussed. The other sections of this chapter include determinants of dividend payout ratio, conceptual framework showing the association between study variables and a literature review summary.

2.2 Theoretical Framework

This presents review of theories that explains the study phenomena. The theoretical reviews covered are the stakeholder theory, the stewardship theory and the agency theory.

2.2.1 Agency Theory

This was developed by Jensen and Meckling in 1976. It argues that a relationship exists between the principals who are the company's shareholders and the agents who are the managers and executives of the company. Meckling's and Jensen's proposition on agency theory commend that the segregation between ownership and management may result in agency problems being experienced in many modern organizations (Jensen & Meckling, 1976).

The principal, who gives the agent some decision-making authority, incurs agency costs arising from the divergence of shareholders' interests with those of company managers. Meckling and Jensen defined agency costs as the summation of bonding cost, monitoring cost, and residual loss. Despite monitoring and bonding costs incurred, residual loss will still occur as a result of managers and shareholders interest not being

fully aligned. Alignment of interests occurs when there is harmony between objectives of agents acting within an organization and those of the organization as a whole (Jensen & Meckling, 1976).

Incentives such as stock options, bonuses, and profit related pay can be used as a method of aligning interest of the agent with those of the principal since these are directly related to how well the result of management decision serves the shareholder decisions. Agency theory advocates for self-interest by the managers and employees that this calls for the agents to conduct their duties while keeping the interests of the principals in mind. The agents are governed by rules made by the principals, with the maximizing of shareholders' value as the main objective. Hence in this theory a more individualistic view is applied (Nambiro, 2007). It is crucial to this study as it recognizes that there exists an agency problem between shareholders and managers in a firm and this problem can be mitigated by developing corporate governance mechanisms. A strong governance mechanism would in effect lead to maximization of shareholders wealth either through share appreciation or dividend payments.

2.2.2 Stakeholder Theory

This theory was advanced gradually by Freeman (1984) who advocated the inclusion corporate accountability to the different types of stakeholders. The stakeholder theory views the firm as the input-output model by involving the various stakeholders of a firm such as employees, suppliers, customers, dealers, governmental bodies and the larger society into the mix. A stakeholder in the stakeholder theory is defined as individuals or groups who can affect a particular firm's attainment of objectives as well as its achievement of the set objectives by way of their actions (Fernando, 2009).

Proponents of the stakeholder theory argue that the association between a company's manager, its suppliers, the employees and other business partners affect the business both internally and externally. The theory therefore gives more importance to the above relationship more than the manager owner relationship as portrayed in the agency theory (Freeman, 1999). Sundaram (2004) noted that the theory addressed the wider range of stakeholders and that the firm system is composed of many stakeholders and each organization's main aim is to generate wealth for its stakeholders.

Freeman (1984) argues that the relationship of the firm with the various groups of stakeholders affects the decision making process as this theory is focused on the type of these associations for the outcome of the firm activities. According to Wanyama and Olweny (2013), the nature of the relationship in regard to the process and the outcome from the firms and the firm's stakeholders as these groups can affect decision making processes. It is crucial to this study as it recognizes that a firm is accountable to many stakeholders and to take care of the different stakeholders, a governance mechanism is necessary to take into account the differing needs of different stakeholders. If this theory was to hold, corporate governance would have a positive impact on dividend payout as shareholders are one of the company stakeholders.

2.2.3 Stewardship Theory

Davis and Donaldson (1997) define a steward as one whose aim is to shield and maximizes shareholders wealth through the efficient running of the firm. By doing so, the steward's value are enhanced in an organization, stewards are the managers and executives working for shareholders. The stewards are motivated when a company achieves the set objectives and is successful since they are the ones responsible for making profits and guarding the company on behalf of the shareholders.

The role of the top management of being stewards is highly regarded in the stewardship theory. Therefore, the corporate governance structure empowers the managers who are stewards and gives them maximum control thereby allowing them to have trust which reduces the cost of monitoring. As the organization's decision makers and in a bid to secure their reputation in the organization, the executives and the directors maximize the financial performance of the organization by increasing its wealth and the shareholders' profits (Daily et al., 2003). In doing this, they aim at being seen as stewards who are effective of their organization thereby protecting their careers (Fama, 1980). This theory recognizes managers as stewards who have interest of shareholders in their operations and therefore the role of corporate governance is to empower these stewards which helps reduce monitoring costs and ultimately maximizes shareholders wealth through both dividend payments and share appreciation.

2.3 Determinants of Dividend Payout

Several company dividend payout determinants exist. These factors usually cut across almost all the sectors in the economy. They include corporate governance, debt financing, profitability, company's liquidity position, growth prospects, firm size, ownership structure, legal restrictions and macro-economic variables.

2.3.1 Corporate Governance

Corporate governance is an integral component of most of the studies that seek to study dividend payout. The reason is the role played by corporate governance in a company's performance which eventually translates to dividend payout ratio. Additionally, the capital structure of a company is influenced by the corporate governance and consequently affects the firm's payout ratio (Friend & Lang, 1988). Moreover, a

company can exhibit poor financial performance and eventually reduction in dividend payout where its corporate governance practices are poor (Claessens et al., 2002).

According to Gomper et al., (2003), corporate governance helps in reducing cases of misconduct and mismanagement in an organization in relation to the top level management. This in turn helps in efficiency and economic growth achievement. In turn agency cost and inefficiencies are reduced through corporate governance which in turn improves the firm's competitive advantage over its rivals and its therefore well able to fulfill the responsibility in the community where it is positioned (OECD, 2004).

2.3.2 Debt Financing

A rising study number have established that dividend policy is negatively impacted by the financial leverage level (Agrawal & Jayaraman, 1994; Al Malkawi, 2005; Crutchley and Hansen, 1989; Faccio et al., 2001; Gugler & Yurtoglu, 2003; Jensen et al., 1992). Studies conducted by these individuals concluded that greatly levered companies decide upholding their cash flow internal to accomplish responsibilities, rather than allotting cash accessible to shareholders as well as safeguard their creditors.

Nevertheless, Mollah et al., (2001) observed a market evolving and established an association that is direct amongst financial leverage and debt burden level which rises costs of transaction. Therefore, companies that have high leveraging ratios are associated to having transaction costs that are high, and are weak to manage higher dividends pay in avoiding the external financing cost. To evaluate the debt level in which it can have impact on dividend payouts, the research used the financial leverage ratio or liabilities ratio (total short term as well as long term debt) to total equity of shareholders. Al Kuwari (2009) also established a negative association that is

significant between the two. The used proxy is debt to equity ratio for financial leverage.

2.3.3 Profitability

Profitability of a firm is perceived as a key firm's indicator of the capacity of paying dividends. As per Lintner (1956) the firm's pattern of paying dividends is determined through the earnings of that particular year and the dividends of the previous years. Baker and Powell (2000) noted that dividend payments are determined by the expected level of future earnings.

Gitman and Pruitt (1991) stated that the profits of the current and previous years greatly determine the ability of a company to pay dividends. In their New York review of firms listed in exchange, Baker and Powell (2000) noted that industry definite and projected future earnings level is the major dividend determinant. This finding was in line with that of Lintner, which argues that organizations with cyclical earnings that are more smooth more whereas those with less cyclical earnings smooth less (Abala, 2013). This implies that cyclical earnings have a big impact on dividend decisions.

2.3.4 Liquidity

Dividend payments are regarded as cash outflow by the firm. Although a company could have enough earnings to declare dividends, the cash available at a particular instance may not be adequate to pay dividends. The firm's cash position is therefore a critical factor to consider while making dividend payments; the firm's ability of paying dividends increases with the overall liquidity of the firm and cash position (Fama & French, 2001).

Well established companies generally have higher liquidity which makes their dividends payment capability higher. Such a company has little investments

opportunity since most of its funds are not held in the working capital thus its cash position is secure. On the other hand, growing firms face the problem of liquidity. The management has to consider the effect of paying out dividends on its liquidity position. If it impacts negatively on the liquidity position, the management may opt to retain earnings rather than issue out dividends by following a conservative dividend policy (Pandey, 2010).

2.3.5 Firm Size

A study by Eriotis (2005) noted that Greek firms annually distribute dividends based on each firm's target payout ratio, this is done based on the size of these firms and the amount of earnings distributed. The size of the firm has a critical role when it comes to the explanation of the firm's dividend payout ratio (Lloyd et al., 1985). In this study, it was noted that larger firms are endorsed with a high financial maturity which gives them a higher access to funds in the capital markets. This decreases their reliance on the internally generated funds as well as increases the ratio of dividend payouts. A positive association can therefore be said to exist between firm size and its dividend payout ratios.

Firms which are large are mature and have a higher ability to pay dividend in comparison to smaller firms since they have easier access to financial market. Sawicki (2005) established that performance in large firms can be monitored through dividend payment. Information asymmetry in large firms is high due to dispersion of ownership thus increase in shareholders inability to monitor managers' activities. Dividend payment cubs this problem since higher dividend payout triggers for debt financing which eventually leads to monitoring due to existence of trade payables and debenture holders.

2.4 Empirical Review

Research has been conducted both in the domestic and international scene to support the association between dividend payout and corporate governance, but these studies have yielded contradicting results.

2.4.1 Global Studies

In Nigeria, a study by Abor and Fiador (2013) for the period between 1997 and 2006, established that CEO duality and dividend payout have a negative relationship. This could be explained that when the CEO is also the chair of the board, the CEO then has better opportunity to the board's decisions. This certainly results in payment of lower dividend and reinvestment of the remaining money in projects that interest the CEO's but not to the shareholders'.

Mansourinia, Emamgholipour, Rekabdarkolaei and Hozoori (2013) concluded that size of the board of a firm has a positive significant relationship with dividend policy. The study was conducted among 140 Tehran listed companies from 2006 to 2010. The same results were experienced in the study by Uwuigbe (2013) who used regression analysis to analyze the relationship between corporate governance and dividend payout policy. Uwuigbe (2013) concluded that a big board will mean that more dividends are distributed and followed.

Schen and Suffian (2014) tried to evaluate association that exist between CEO duality and the oil and gas companies dividend policy in Bursa over the period 2009 to 2013. The study found that to minimize agency cost, a company can employ CEO duality which also ensures that the managers and shareholders' interests are aligned. A company that has a CEO who also doubles up as the chairman easily controls the

managerial activities of the company in which case the company distributes lower dividend payouts.

Nuhu et al., (2014) study further studied how size of board and dividend payout relate and found a positive and substantial relationship. The study was done on 30 listed companies under the Ghana Exchange from 2000 to 2009. A large board was found to lead to higher dividend payout to shareholders. This is because the opportunistic behavior of managers is well monitored in the presence of a corporate board and also the interests of shareholder are promoted. A big board and that has many members who perform the role of monitoring the CEO's decisions applications of discretionary funds available to firms pay higher dividends to its shareholders.

Another study was done by Haye (2014) on 120 financial services companies trading on NASDAQ, NYSE and AMEX during the year 2011. The study found that low CEO ownership translated to a higher dividend to shareholders. The study concluded that CEO ownership negatively associate with dividend payout policy. In situations where information asymmetries hinder effective monitoring of capital spending activities and cash management, this agency friction can be reduced by executive stock ownership.

2.4.2 Local Studies

Muiruri (2014) analyzed performance and how it is affected by corporate governance. Corporate governance practices were conceptualized into board size, the number of non-executive directors and board diversity in terms of gender. The study adopted an exploratory research design and was a census. Secondary data was obtained and analyzed by the use of regression analysis. The study established that the number of non-executive directors as well as the size of the board has a significant effect on

performance while gender diversity does not have an effect on performance. The study period was however not indicated.

Adhiambo (2014) undertook a census research study and utilized cross sectional design and obtained secondary data between 2009 and 2013. Data were analyzed using multiple regression analysis. The researcher finds that negative performance stems from large board sizes. Positive upward financial trends emanate from composition of boards, remuneration (compensation) of the members of boards and the level of academic and educational qualifications held by the members of the boards.

Another study was conducted by Muigai (2014) to determine the association between dynamics in the corporate board and commercial banks' performance. The different dynamics that were studied include size of the board, gender diversity, and executive and non-executive board members composition. The census research utilized a descriptive design and the population was 43 licensed commercial banks in Kenya and obtained secondary data between 2009 to 2013. Descriptive and multiple regression were used in analyzing the data. The research study established a strongly negative correlation between composition of board of both the executive and non-executive members, board size and performance and gender diversity had no relationship with performance of commercial banks.

Olick's (2015) study sought to establish the effect of firm governance and administration practices that included NEDs proportion and diversity in terms of gender on Kenya's microfinance firms' performance. The census study was based on cross-sectional research design and data gathered from secondary sources of the 9 licensed micro finance banks' annual reports for the period 2010 to 2014. Multiple linear regression model was used in data analysis and analysis of variance to test significance.

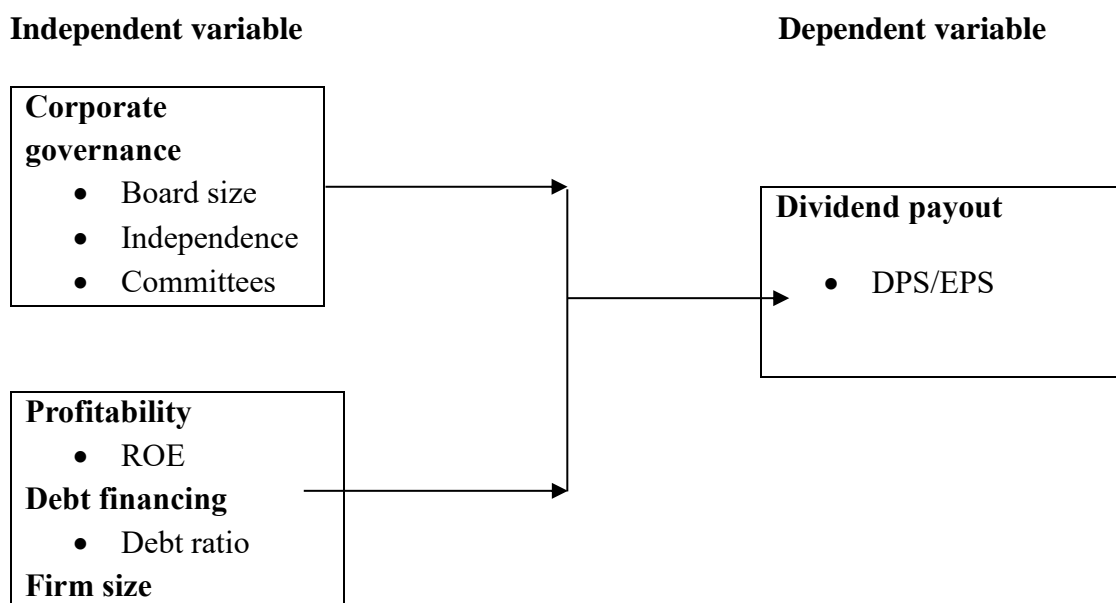
The study found size of board positively and significantly affected ROA, proportion of NEDs has positive insignificant effect; gender diversity showed significant negative effect on performance.

Aboka (2018) researched dividend payout of commercial banks and how it is affected by corporate governance. The study population was 42 commercial banks. The control variables were bank size, profitability and debt level. Profitability was given by ROA, board size given by the natural logarithms of total assets and debt level by the ratio of total debts and total assets. The response variable on the other hand was given by dividend per share divided by earnings per share. The study established a positive and significant association between profitability and size of bank and dividend payout while board size, board diversity, board independence and debt levels had insignificant relationship with commercial banks' dividend payout.

2.5 Conceptual Framework

The model presented in Figure 2.1 portrays the expected association between the study variables.

Figure 2.1: The Conceptual Model



<ul style="list-style-type: none">• Log total assets Liquidity <ul style="list-style-type: none">• Current ratio

Control Variables

Source: Researcher (2019)

It is clear from Figure 2.1 that the independent variable for the study was corporate governance with three measures. The board's size factor was measured using natural logarithm. The measures for board committees was the natural logarithms of the number of board meetings held annually while the quotient of NED to board of directors measured independence of the board. The control variables were debt financing, profitability, firm size and liquidity. The dependent variable was dividend payout and it was measured by DPS divided by EPS.

2.6 Summary of the Literature Review

A number of theories have explained the theoretically expected relationship between the two concepts. The theories covered in this review are; agency theory, stakeholder theory and stewardship theory. Critical influencers of dividend payout ratio have also been explored in this area. A number of empirical studies in both the international and domestic scene have made an attempt to explain corporate governance and dividend payout of firms. The findings of these studies have also been explored in this chapter.

From empirical review, it is evident that very few studies if any have focused on manufacturing firms' listed in NSE governance and dividend payout ratio. Therefore, this research's intent was to answer the following question: How does corporate governance influence dividend payout ratio of NSE listed manufacturing firms?

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

In order to determine how corporate governance influences dividend payout, a research methodology was necessary to outline how the research was carried out. This chapter outlines the research design, the data collection method, diagnostic tests data analysis techniques.

3.2 Research Design

A descriptive cross-sectional research design was utilized in this study. This was done because the researcher is interested in finding out the state of affairs as they exist (Khan, 2008). This research design was suitable as the researcher was familiar with the phenomenon under investigation but wanted to know more with respect to the nature of associations between the study variables. In addition, a descriptive research aims at providing a valid and accurate representation of the study variables and this helps in responding to the research question (Cooper & Schindler, 2008).

3.3 Population

According to Burns and Burns, (2008), population is the number of all of the observations of interest within a particular collection such people or events as described by an investigator. A selection of all the 9 manufacturing and NSE listed firms as at 31st December 2018 (see appendix I) was used as the population.

3.4 Data Collection

Published annual financial reports of the manufacturing firms listed in NSE were drawn from Capital Markets Authority (CMA) and individual firm's annual reports between January 2014 and December 2018 and provided secondary data which was recorded in

a data collection sheet. The data collection sheet will finally contain the corporate governance and dividend payout ratio annual information for the 9 manufacturing firms quoted at the NSE.

3.5 Data Analysis

The SPSS software version 21 was used in the analysis of the data. The researcher quantitatively presented the findings using graphs and tables. Descriptive statistics was used to make a summary and explain the variables of the study as observed in the firms. The results were relayed in form of frequencies, percentages, measures of central tendencies and dispersion displayed in tables. Inferential statistics included Pearson correlation, multiple regressions, ANOVA and coefficient of determination.

3.5.1 Diagnostic Tests

The linearity test which shows that two variables represented by Y and X are related through a mathematical equation in the form of $Y = bX + c$ where c represents a constant was done through the scatter plot method or the F statistic in ANOVA.. Stationarity test is a process where the statistical properties such as mean, variance and autocorrelation structure do not change with time. Stationarity was obtained from the run sequence plot. Moreover, Shapiro-Wilk test and Kolmogorov-Smirnov test were used to test normality. Normality tests whether the residuals are distributed normally around the mean. Durbin-Watson statistic was on the other hand be used to determine autocorrelation (Khan, 2008).

Homoskedasticity of variance is essential in multiple linear regressions. It occurs when there is a constant variance of the error term across the population while the variance of y is constant and does not depend on the x's. The non-existence of a constant variance of error term signals heteroskedasticity. Homoskedasticity was tested by the white test

and ANOVA test (Burns & Burns, 2008). Multicollinearity tests whether two variables have a linear relationship. Variance Inflation Factors (VIF) and tolerance levels were also carried out to show the degree of multicollinearity (Burns & Burns, 2008).

3.5.2 Analytical Model

The model below was used:

$$Y = \alpha + \beta_1 X_{1t} + \beta_2 X_{2t} + \beta_3 X_{3t} + \beta_4 X_{4t} + \beta_5 X_{5t} + \beta_6 X_{6t} + \beta_7 X_{7t} + \varepsilon.$$

Where: Y = Dividend payout as measured by the ratio of dividend per share to earnings per share on an annual basis

α = y intercept of the regression equation.

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6, \beta_7$ = are the slope of the regression

X_{1t} = Board size (natural logarithm of total members forming the board of directors).

X_{2t} = Board independence (the number of non-executive members as a percentage of the total number of members)

X_{3t} = Board sub-committees given by natural logarithm of the number of sub-committees in the board

X_{4t} = Profitability given by return on equity on an annual basis.

X_{5t} = Debt financing given by the debt ratio on an annual basis

X_{6t} = Firm size given by natural logarithm of total assets on an annual basis.

X_{7t} = Liquidity given by the ration of current assets to current liabilities on an annual basis

ε = error term

3.5.3 Tests of Significance

The researcher carried out parametric tests to establish the statistical significance of both the overall model and individual parameters. Overall significance was tested using the F-test which was used to assess how significant the overall model was and it was obtained from Analysis of Variance (ANOVA) while a t-test established statistical significance of individual variables.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND FINDINGS

4.1 Introduction

This chapter aims to present analysis of collected data from the organizations' yearly reports to establish how corporate governance impacted dividend payout among manufacturing and allied firms listed at the NSE. Using descriptive statistics, correlation and regression analyses, findings were illustrated on tables as illustrated in the subsequent sections.

4.2 Response Rate

The 9 listed manufacturing and allied firms at the NSE were the target population for the current research. Data obtained from the 9 firms meant that the response rate was at 100%. The researcher successfully acquired secondary data on corporate governance, liquidity, firm size, debt financing and dividend payout of the firms.

4.3 Descriptive Analysis

Measures of central tendency and dispersion statistics were applied. Central tendency measured the extent to which the data on each variable were concentrated at a central point while dispersion measured the degree to which the data were spread out from the convergent point. The central tendency was measured by the mean while dispersion was represented by the standard deviation. The analysis was extracted from SPSS software for 5 years (2014 - 2018) for all the 9 firms in this study. Table 4.1 shows Minimum, Maximum, Mean and Standard Deviation.

Table 4.1: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Dividend payout (ratio)	45	.0000	2.5743	.429009	.5137335
Board size (individuals)	45	5.000	14.000	8.88889	2.470022
Board independence (ratio)	45	.500	1.000	.77460	.133277
Board committees (number)	45	2.000	6.000	3.62222	.936359
Profitability (ratio)	45	-5.3539	17.3446	1.834364	4.3872676
Debt financing (ratio)	45	.0399	.8208	.383882	.2066846
Firm size (log)	45	5.7587	7.8528	6.938107	.5647548
Liquidity (ratio)	45	.0290	9.4280	1.818449	2.0211137
Valid N (listwise)	45				

Source: Research Findings (2019)

4.4 Diagnostic Tests

The data collected was subjected to diagnostic tests. The study presumed a 95% confidence interval or 5% level of significance so as to make variable deductions on the data adopted. Diagnostic tests were useful for ascertaining the falsity or truth of the data. Therefore, the nearer to 100% the confidence interval, the more accurate the data used is presumed to be. In this case, the tests conducted were Multicollinearity test, normality test, and autocorrelation and Heteroskedasticity tests.

4.4.1 Multicollinearity Test

Multicollinearity can be defined as a statistical state where more than one predictor in a multiple regression model have a high correlation. It is an unwanted situation where there exists a strong correlation among the predictor variables. A combination of variables is said to exhibit high Multicollinearity in case there is 100% linear correlation among the study variables.

Table 4.2: Multicollinearity Test

Collinearity Statistics		
Variable	Tolerance	VIF
Board size	0.724	1.382
Board independence	0.684	1.463
Board committees	0.697	1.434
Profitability	0.712	1.404
Debt financing	0.661	1.513
Firm size	0.634	1.577
Liquidity	0.624	1.603

Source: Research Findings (2019)

VIF value and Tolerance of the variable were utilized where the values below 10 for VIF and values more than 0.2 for Tolerance imply no Multicollinearity. From the results, all the variables had a VIF values <10 and tolerance values >0.2 as illustrated in Table 4.2 suggesting that there is no Multicollinearity.

4.4.2 Normality Test

Shapiro-wilk test and Kolmogorov-Smirnov test was utilized to test for normality. The level of significance in the study was 5%. The output of the test is depicted in Table 4.3. The null hypothesis is that the data is normally distributed. In case the Shapiro-wilk test and Kolmogorov-Smirnov tests contradict, the later test is picked over the former because it is more statistically sound. Since the p value in both tests of all the variables is greater than the α (0.05), then the null hypothesis is not rejected. Hence the data series of all the variables is normally distributed.

Table 4.3: Normality Test

EM	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	Df	Sig.	Statistic	Df	Sig.
Board size	.161	45	.300	.869	45	.853
Board independence	.173	45	.300	.918	45	.822
Board committees	.178	45	.300	.881	45	.723
Profitability	.175	45	.300	.874	45	.812
Debt financing	.176	45	.300	.892	45	.784
Firm size	.178	45	.300	.893	45	.787
Liquidity	.181	45	.300	.896	45	.792

a. Lilliefors Significance Correction

Source: Research Findings (2019)

4.4.3 Autocorrelation Test

To test for autocorrelation, Durbin-Watson statistic was applied which gave an output of 1.827 as displayed in Table 4.4. The Durbin-Watson statistic ranges from point 0 and point 4. If there exist no correlation between variables a value of 2 is shown. If the values fall under point 0 up to a point less than 2, this is an indication of an autocorrelation and on the contrast a negative autocorrelation exist if the value falls under point more than 2 up to 4. As a common rule in statistics, value falling under the range 1.5 to 2.5 are considered relatively normal whereas values that fall out of the range raise a concern. Field (2009) however, opines that values above 3 and less than 1 are a sure reason for concern. Therefore, the data used in this panel is not serially auto correlated since it meets this threshold.

Table 4.4: Autocorrelation Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.962 ^a	.925	.911	.1746806	1.827

a. Predictors: (Constant), Liquidity, Profitability, Debt financing, Board size, Board committees, Firm size, Board independence
b. Dependent Variable: Dividend payout

Source: Research Findings (2019)

4.4.4 Heteroskedasticity Test

The researcher checked for heteroskedasticity by use of Likelihood Ratio (LR) as indicated in the Table. This test used the alternative hypothesis that the error was homoscedastic. A chi-square value of 34.36 was produced by the likelihood-ratio test with a 0.0000 p-value. The chi-square esteem was significant at 1 percent level.

Table 4.5: Heteroskedasticity Test

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
Ho: Constant variance
Variables: fitted values of NASI

chi2(1) = 34.36
Prob > chi2 = 0.0000

Source: Research Findings (2019)

4.5 Correlation Analysis

This measures the existing relations between the variants. It undertakes a Pearson correlation that measures the linear relationship of variants. Correlation of 1 showed a perfect positive correlation while of 0 or value close to zero shows no relationship or weak relationship respectively. -1 value, shows a negative perfect relationship and values close to it have strong negative relationship. The table 4.5 showed value of Pearson correlations for the variants.

As per the table, our interest is on how predictor variables relates to the response variant. The correlation of board size against dividend payout ratio is 0.426 implying that board size exhibits a positive relation with DPR. The association is significant as the p value falls below 0.05. The independence of the board had a positive correlation with DPR. It showed that the more independent the board was, the more the dividend payout is. The association is however not significant. Board committees exhibited positive and not significant association with dividend payout as shown by a positive correlation coefficient and a p value higher than 0.05 while profitability exhibited a significant positive correlation with dividend payout.

Firm size showed a positive and significant association with dividend payout among manufacturing and allied firms as demonstrated by a positive correlation coefficients and a p value less than 0.05. Debt financing exhibited a negative relation with dividend payout but the association was not statistically significant while liquidity exhibited a positive and substantial correlation with dividend payout. The results further reveal that although the independent variables are related with one another, the association is not strong enough to cause Multicollinearity.

Table 4.6: Correlation Analysis

		Dividend payout	Board size	Board independence	Board committees	Profitability	Debt financing	Firm size	Liquidity
Dividend payout	Pearson Correlation	1							
	Sig. (2-tailed)								
Board size	Pearson Correlation	.426**	1						
	Sig. (2-tailed)	.004							
Board independence	Pearson Correlation	.279	.136	1					
	Sig. (2-tailed)	.063	.371						
Board committees	Pearson Correlation	.231	.316*	.273	1				
	Sig. (2-tailed)	.128	.035	.069					
Profitability	Pearson Correlation	.351*	.089	.404**	.166	1			
	Sig. (2-tailed)	.018	.559	.006	.276				
Debt financing	Pearson Correlation	-.068	-.093	-.127	-.435**	-.115	1		
	Sig. (2-tailed)	.655	.544	.406	.003	.452			
Firm size	Pearson Correlation	.849**	.346*	.054	.384**	.404**	.492**	1	
	Sig. (2-tailed)	.000	.020	.726	.009	.006	.001		
Liquidity	Pearson Correlation	.481**	.556**	.494**	.436**	.045	.269	.442**	1
	Sig. (2-tailed)	.001	.000	.001	.003	.769	.073	.002	

** . Correlation is significant at the 0.01 level (2-tailed).
 * . Correlation is significant at the 0.05 level (2-tailed).
 c. Listwise N=45

Source: Research Findings (2019)

4.6 Regression Analysis

So as to show how CG related to the dividend payout of manufacturing and allied firms listed at the NSE, the below model was employed.

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \epsilon$$

A regression analysis was undertaken that had findings as stipulated below.

Table 4.7: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.962 ^a	.925	.911	.1746806	1.827

a. Predictors: (Constant), Liquidity, Profitability, Debt financing, Board size, Board committees, Firm size, Board independence
b. Dependent Variable: Dividend payout

Source: Research Findings (2019)

In the model summary table, coefficient of determination that is denoted by R squared is given by 0.925. It shows the strength in which the model is able to forecast the dependent variable. The value indicates that 92.5% of the variations can be described in the model. The other 7.5% can only be described by other factors that are not present

Table 4.8: Analysis of Variance

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	14.006	7	2.001	65.571	.000 ^b
	Residual	1.129	37	.031		
	Total	15.135	44			

a. Dependent Variable: Dividend payout
b. Predictors: (Constant), Liquidity, Profitability, Debt financing, Board size, Board committees, Firm size, Board independence

Source: Research Findings (2019)

This model is established by matching the p value with the alpha value. The model is said to be insignificant when the value of P is higher than that of the alpha while the vice versa is true. The regression analysis is undertaken at 95 degrees of freedom which

means the alpha value is 0.05. According to the table, p is shown as 0.000 that shows that it is less than the alpha value. We therefore conclude that the relationship between the constant variants and payout of dividends of firms listed is important.

In determining whether or not to reject the alternative hypothesis we compare the F statistic and the calculated value of F as shown in the table 4.7, if the calculated value is higher than existing, it will be rejected. According to the topic under study, the null hypothesis states that there is no effect of the selected independent variables on dividend payout of the firms. Calculated F value is 65.571 while the F statistic at an alpha of 0.05 and 7, and 45 degrees of freedom is 3.26. The value is greater which means we reject the null hypothesis. We therefore conclude that there is a substantial effect of selected variables on the dividend payout of manufacturing and allied firms.

Table 4.9: Model Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-1.282	.479		-2.677	.011
Board size	.015	.014	.062	1.082	.286
Board independence	1.099	.345	.250	3.184	.003
1 Board committees	.037	.041	.059	.904	.372
Profitability	.016	.008	.118	1.870	.069
Debt financing	-1.229	.157	-.433	-7.801	.000
Firm size	1.118	.071	1.077	15.782	.000
Liquidity	.016	.025	.056	.643	.524

a. Dependent Variable: Dividend payout

Source: Research Findings (2019)

The coefficients β_0 , β_1 , β_2 and β_3 are given by; -1.282, 1.099, -1.229 and 1.118 respectively. The model therefore becomes

$$Y = -1.282 + 1.099X_1 - 1.229X_2 + 1.118X_3$$

Where,

Y = Dividend payout

X₁= Board independence

X₂= Debt financing

X₃= Firm size

This model may therefore shows effect of any of independent variants on the dividend payout, when a variable is increased by 1 unit and all other variables are kept constant.

4.7 Discussion of Research Findings

The study undertook a linear regression model on data collected in determining how dividend payout of manufacturing and allied organizations listed is influenced by corporate governance. Diagnostic test was first conducted on the data in order to determine presence of collinearity or presence of residuals in autocorrelations. Collinearity test undertaken showed that all variables had VIF values of less than 10 and therefore there was no collinearity among the variables. The Durbin Watson value was 1.827, less than 2.5 and therefore there were no residuals or autocorrelations that would imply error in the model.

There was 100% response rate and was enough for obtaining conclusions from findings of data. Pearson correlation indicated that although board independence had a positive correlation with DPR, the association was not statistically significant. This meant that the more the independence of the board, the more the DPR though the association is not significant statistically. Other measures of corporate governance exhibited positive association with dividend payout. The association between board size and dividend payout was however significant statistically. Debt financing exhibited a negative and not significant association with DPR of the firms as evidenced by a negative correlation coefficients and a p value more than 0.05. Firm size, liquidity and profitability exhibited

a positive and notable relation with dividend payout.

Regression analysis undertaken discovered that the model would predict 92.5% of alterations in dividend payout of the firms. The other 7.5% however would be as a result of factors not in this model. The analysis showed that the alpha value was more than the p value and therefore the relationship was significant. The calculated value of F was higher than F statistic making the null hypothesis to not to be accepted. To conclude, the study findings showed a notable effect of the selected predictor variables on dividend payout of the firms.

The findings of the study support a study done by Aboka (2018) who researched dividend payout of commercial banks and how it is affected by corporate governance. The study population was 42 commercial banks. The control variables were bank size, profitability and debt level. Profitability was measured by ROA, board size given by the natural logarithms of total assets and debt level by the ratio of total debts and total assets. The dependent variable on the other hand was given by dividend per share divided by earnings per share. The study established that there was a positive and significant association between profitability and size of bank and dividend payout while board size, board diversity, board independence and debt levels had insignificant relationship with commercial banks' dividend payout

The findings differ with Nuhu et al., (2014) who studied the relationship between size of board and dividend payout and found a positive and notable relationship. The study was conducted on 30 listed companies under the Ghana Stock Exchange from 2000 to 2009. A large board was found to lead to higher dividend payout to shareholders. This is because the opportunistic behavior of managers is well monitored in the presence of a corporate board and also the interests of shareholder are promoted. A big board and

that has many members who perform the role of monitoring the CEO's decisions applications of discretionary funds available to firms pay higher dividends to its shareholders.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter aims at presenting the findings from previous chapter, its conclusions and limitations encountered during study. It also recommends policies that policy makers can use to better the expectations of manufacturing and allied firms listed at the NSE. Additionally, the chapter gives recommendations for future study.

5.2 Summary

The objective of this study was to establish the influence of CG on dividend payout among manufacturing and allied firms listed at the NSE. Corporate governance was operationalized in terms of board size, independence and board committees while DPR was measured by the ratio of DPS to EPS. From the results of regression, although the three measures of CG had an effect on DPR, only board independence had a positive and statistically significant impact on DPR.

Other predictor variables in the model were profitability, firm size, liquidity and debt financing that were the control variables. Firm size had a substantial positive impact on DPR implying that manufacturing and allied firms with more assets are more likely to pay more dividends. Liquidity and profitability were also found to have a positive influence on manufacturing and allied firms DPR but the impact was not statistically significant while debt financing had a negative and statistically substantial influence on DPR of manufacturing and allied firms.

Additionally, the study revealed that the p value was below the alpha value of 0.05 at 0.000 implying that the overall model was statistically substantial. The F statistic was

also less than the calculated value of F at 65.571 as the critical F value was at 3.26. The results were used in determining the significance of the relationship between the variables and whether or not to reject or accept the null hypothesis.

5.3 Conclusion

From the study, the researcher found that of all the three indicators of CG assumed in this study (board size, independence and committees), only board independence had a statistically significant positive influence on DPR among manufacturing and allied firms. The researcher therefore concludes that board independence significantly and positively influences DPR while the other measures of CG are not significant determiners of dividend payout.

Regression model had a coefficient of determination (R Squared) of 92.5%, which means that the model could explain up to 92.5% of the variations of dividend payout among listed manufacturing and allied firms. Other variations in dividend payout represented by 7.5% are elaborated by outside factors. The model was substantial and we can therefore conclude that this model is fairly good in predicting dividend payout of the firms.

Firm size had a substantial positive influence on dividend payout which shows that the more assets a firm has, the more likely it is to pay higher dividends and vice versa. Debt financing had a negative correlation with the payment showing that firms with more debt financing pay less dividends and this relationship was statistically significant. Liquidity and profitability exhibited positive but not statistically substantial influence on DPR of firms.

This study agrees with Mansourinia, Emamgholipour, Rekabdarkolaei and Hozoori (2013) who found that the size of the board of a firm has a positive significant relationship with dividend policy. The study was conducted among 140 Tehran listed companies from 2006 to 2010. Similar findings were experienced in the study by Uwuigbe (2013) who used regression analysis to analyze the relationship between corporate governance and dividend payout policy. Uwuigbe (2013) concluded that a big board will mean that more dividends are distributed and followed.

This study is also in agreement with Kulathunga (2017) who investigated how governance correlates with dividend policy of registered firms in the stock exchange market of Sri Lanka. The study undertook 20 samples of corporations registered in Colombo in the years 2010-2016. The independent variables of the research study constituted the management, independent boards and CEO duality. During data analysis, the research employed fixed impacts on fixed impacts model employing the data. Results indicated a significant correlation between the variables of governance and the dividend policy of registered manufacturing corporates in Sri Lanka. The research indicated a positive and notable correlation between the independent board, CEO dualism and returns on assets and had an impact on dividend policy while the magnitude of the board has negative effect on dividend policy.

5.4 Recommendations

This study found that a positive and statistically significant effect of board independence on DPR exists. This implies that an increment in board independence will have a significant influence on DPR. It is the recommendation of this study that policy makers and directors of listed firms should work towards having more independent boards as this will lead to a notable increase in dividend pay-out ratio of listed firms.

The study discovered that a positive relation exists between DPR and size of a firm. It is the recommendation of this study that manufacturing and allied firms quoted at the NSE and all firms in general should work towards improving their asset base as this has been found to significantly influence dividend pay-out ratios and thus shareholders wealth.

The study also established the existence of a negative and statistically significant influence of debt financing on dividend payout. Implication that firms with more debt in their capital structure will on average pay less dividends than firms with less debt. This study recommends that firms should create a balance between the tax shield benefit of debt and the bankruptcy costs associated with too much debt by coming with optimal capital structures that will not negatively influence the dividend payout.

5.5 Limitations of the Study

The period selected in this study was 5 years that is from 2014-2018. There is no proof that similar results will remain the same in future. More time would prove more reliable since it will include cases of major economic changes like recessions and booms.

The most significant limitation for this study was the quality of the data. It cannot be concluded with accuracy from this study that the findings are a true representation of the situation at hand. An assumption has been made that the data used in the study is accurate. Additionally, a lot of inconsistency in the measurement of the data was experienced due to the prevailing conditions. The study utilized secondary data contrast to primary information. It took into account some factors impacting on DPR of manufacturing and allied firms and not all factors because of the limit imposed by data availability.

To complete the analysis of the data, multiple linear regression model was used. Because of the limitations involved when using the model like erroneous and misleading results resulting from a change in variable value, it would be impossible for the researcher to generalize the findings with accuracy. In case of an addition of data to the functional regression model, the model may not perform as per the previous.

5.6 Suggestions for Future Research

Present study concentrated on CG and dividend payout among listed manufacturing and allied firms by relying on secondary data. A similar study that is based on primary data collected with tools such as detailed interviews and questionnaires conducted on all 9 manufacturing and allied firms quoted at the NSE would be more appropriate in complimenting this research.

This study did not exhaust all the predictor variables affecting manufacturing and allied organizations and therefore gives a recommendation that future studies be based on other variables such as age of the firm, growth opportunities, industry practices, political stability or any other macro-economic variable. Policy makers should be able to implement an appropriate tool to control dividend payout of these firms.

The study utilized data from recent five years since it was readily available. Subsequent studies may use a longer range of years like 10 years or 20 years which can be useful in complementing or disapproving the results. Other limitations are that it focused only on manufacturing and allied firms. It is recommended that further studies focus equally on other institutions listed at the NSE. Lastly, due to the limitations of the regression models, further studies should adopt a different model in explaining the relationship between the variables for example use Vector Error Correction Model (VECM).

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APPENDICES

Appendix I: Manufacturing and Allied Firms Listed at the NSE

1. B.O.C Kenya Ltd
2. British American Tobacco Kenya Ltd
3. Carbacid Investments Ltd
4. East African Breweries Ltd
5. Eveready East Africa Ltd
6. Flame Tree Group Holdings Ltd
7. Kenya Orchards Ltd
8. Mumias Sugar Co. Ltd
9. Unga Group Ltd

Appendix II: Research Data

Year	Company name	Dividend payout	Board size	Board independence	Board committees	Profitability	Debt financing	Firm size	Liquidity
2018	BOC Kenya	1.5476	10.000	0.700	3.000	0.3310	0.5472	6.3308	1.8821
2017		2.5743	10.000	0.700	3.000	0.2373	0.5412	6.3480	1.9539
2016		0.8037	10.000	0.700	3.000	0.7874	0.5399	6.3471	2.2831
2015		0.6833	10.000	0.700	3.000	0.7011	0.5395	6.3657	2.0635
2014		0.4422	10.000	0.700	3.000	-2.4087	0.5143	6.3618	2.1390
2018	EABL	0.7650	11.000	0.727	3.000	4.0407	0.3021	7.8528	0.8349
2017		0.5664	11.000	0.727	3.000	4.8851	0.3320	7.8239	1.0069
2016		0.4508	11.000	0.727	3.000	6.4099	0.3491	7.7906	0.7707
2015		0.6625	12.000	0.750	4.000	5.0348	0.3740	7.8257	1.0229
2014		0.6691	12.000	0.750	4.000	4.4464	0.3151	7.7984	0.7530
2018	Carbacid	0.5983	5.000	1.000	3.000	1.1449	0.3160	6.5278	9.4280
2017		0.5072	5.000	1.000	3.000	1.3008	0.3143	6.5194	7.0132
2016		0.4762	5.000	1.000	3.000	1.4737	0.3856	6.4888	7.0885
2015		0.4516	5.000	1.000	3.000	1.5433	0.3755	6.4726	4.5106
2014		0.3627	5.000	1.000	2.000	1.7120	0.3871	6.4037	6.2963
2018	BAT	0.8568	10.000	0.600	3.000	4.0834	0.5025	7.2634	1.5911
2017		0.7794	10.000	0.700	3.000	3.3434	0.4867	7.2506	1.3180
2016		1.1691	10.000	0.700	3.000	4.8507	0.4848	7.2672	1.4132
2015		0.8541	10.000	0.700	3.000	4.9763	0.5128	7.2714	1.4512
2014		0.9988	10.000	0.700	3.000	4.2553	0.4915	7.2613	1.2491
2018	MUMIAS	0.0000	14.000	0.929	3.000	-4.9483	0.0399	7.1969	0.0290
2017		0.0000	14.000	0.929	6.000	-2.2233	0.0772	7.3819	0.1093

2016		0.0000	14.000	0.917	6.000	0.4864	0.0730	7.4282	0.1807
2015		0.0000	12.000	0.917	6.000	-1.5179	0.1257	7.3103	0.1879
2014		0.0000	11.000	0.909	6.000	-0.8845	0.1079	7.3722	0.2392
2018	Unga Group	0.1477	8.000	0.875	4.000	2.0690	0.6641	6.9971	2.1418
2017		0.6623	8.000	0.875	4.000	-0.0186	0.6980	6.9757	1.6579
2016		0.2315	8.000	0.875	4.000	1.3442	0.6968	6.9218	2.2986
2015		0.1898	8.000	0.875	4.000	1.6428	0.6288	6.9381	2.3685
2014		0.2055	8.000	0.875	4.000	1.2535	0.6147	6.9045	2.2713
2018	Eveready	0.0000	9.000	0.667	3.000	-0.5319	0.5617	5.7587	2.5325
2017		0.7874	9.000	0.667	3.000	1.2990	0.7479	5.8880	2.6948
2016		0.0000	9.000	0.667	3.000	-0.9329	0.2462	6.0346	0.4538
2015		0.0000	9.000	0.667	3.000	2.2096	0.3696	6.1795	0.8578
2014		0.0000	9.000	0.667	3.000	-0.8457	0.8208	5.9685	1.3339
2018	Flame Tree Group	0.0000	7.000	1.000	5.000	-2.0932	0.1717	6.8198	0.2577
2017		0.0000	6.000	0.833	4.000	-5.3539	0.3377	6.8475	0.5992
2016		0.0000	7.000	0.714	4.000	-4.6900	0.2954	6.8779	0.6717
2015		0.0000	8.000	0.625	4.000	1.4591	0.3513	6.9235	0.9334
2014		0.8621	8.000	0.625	4.000	2.4002	0.4876	6.8970	1.1679
2018	Kenya Orchards	0.0000	8.000	0.500	4.000	17.3446	0.0522	7.5801	0.2484
2017		0.0000	6.000	0.667	4.000	-2.3462	0.0712	7.4371	0.3146
2016		0.0000	6.000	0.667	3.000	9.1937	0.0760	7.4447	0.4262
2015		0.0000	6.000	0.667	4.000	15.9387	0.1366	7.3638	0.8385
2014		0.0000	6.000	0.667	4.000	-0.8568	0.2115	7.1964	0.9464

