EFFECTS OF DIVIDEND POLICY ON THE GROWTH OF SELECTED MEDIUM ENTERPRISES IN NAIROBI COUNTY, KENYA

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A Research Project Proposal Submitted in Partial Fulfillment of the Requirement for the Award of the Degree of Master of Business Administration (MBA), School of Business, University of Nairobi

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DECLARATION

This project proposal is my original work and has not been submitted for examination for the award of a degree in any other university.

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Supervisor

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Martin Odipo

School of Business

DEDICATION

This Research Paper is dedicated to my loving parents, my late father who was my constant source of inspiration. He gave me hope, drive, support, love and reminded me in trusting in God. To my mother who instilled in me discipline with enthusiasm and determination needed to excel.

To my dear husband and children who were my comfort and strength.

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ABSTRACT

Medium enterprises experience poor growth because of a number of limitations arising from poor capital structure, poor liquidity (cash flow) management, undefined ownership structure, poor profitability and constrained communication and less competent staff and management among others. This state of affairs influences the dividend policy of the enterprises which in turn influence the overall growth of the medium enterprises. Therefore this study seeks to investigate the relationship between determinants of dividend policy and the growth of Medium enterprises in Kenya by answering the following research question: how does capital leverage, liquidity and ownership affect growth of medium enterprises in Kenya? The study used cross-sectional descriptive survey because of the large number of respondents that were involved. The target population was 311 drawn from medium enterprises located in Nairobi Central Business District (NCBD). The study used stratified random sampling and involved taking 20% of the target population giving a respondent base of sixty two (62) respondents. Data for the study was collected using the questionnaires and analyzed using descriptive and regression statistics with the aid of Statistical Package for Social Sciences (SPSS 21.0). Findings of the study indicated that capital structure, financial liquidity and ownership structure affect growth of medium enterprises in Kenya The results of the study also showed that medium enterprise with higher short term and long term liabilities pay lower dividends and inhibit the firm ability to attract external funds, that cash liquidity plays an important role in deciding the amount to be paid out and retained and that enterprises that have higher financial liquidity possess the capacity to pay higher dividends and that percentage of shares held by various shareholders influence dividend payout and that the total numbers of shares in the enterprise influence dividend payout and growth. The study recommends that enterprises need to avoid high leverage ratios which may results in high transaction costs resulting in a weakened position to pay higher dividends; for Small and Medium Enterprises (SME'S) to encourage institutions to invest in their enterprises as they are able to invest huge amount of resources at their disposal and for medium enterprises to maintain liquidity up to certain level in order to provide financial flexibility and protection against uncertainty.

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TEST OF SIGNIFICANCE

ABBREVIATIONS AND ACRONYMS

ASE - Amman Stock Exchange

DF – Degrees of Freedom

FGLS - Feasible Generalized Least Square

GDP - Gross Domestic Product

GO - Growth Opportunities

KSE - Karachi Stock Exchange

M & M - Miller and Modigliani

ME’S – Medium Enterprises

MSME - Micro Small and Medium Enterprises

N – Sample Population

NCBD- Nairobi Central Business District

NSE - Nairobi Stock Exchange

OLS - Ordinary Least Square

ROA - Return on Assets

ROE - Return on Equity

SD – Standard Deviation

SME – Small and Medium Enterprises.

STD - Standard

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Growth is a process and is characterized by competencies, markets, and organization, staffing and management techniques (Hayes, Pisano, Upton & Wheelwright, 2005). Indeed growth is a process and is characterized by competencies, markets, and organization, staffing and management techniques. As a matter of fact, growth often has instrumental value. A company's growth is needed to ensure an adequate production volume for profitable business. Growth can serve as an instrument for increasing profitability by enlargement the firm's market-share, securing the continuity of business in the conditions of growing demand or achieving economies of scale. Growth may bring the firm new business opportunities and a larger size enhances its credibility in the market, besides achieving a higher net value. Companies with high growth will be reflected in high dividends which in turn affect the company's stock price, (Timmons, 1999).

1.1.1 Dividend Policy

According to Jensen and Johnson (1995) dividend policy is important for shareholders because shareholders consider dividends not only the source of income but also a way to assess the organization from investment point of view. Gugler and Yurtoglu (2003) add that it is the way of assessing whether the organization is cash generative or not. Dividend policy connotes the payout policy, which managers pursue in deciding the size and pattern of cash distribution to shareholders over time (Ahmed & Javid, 2009, Baker & Powell, 1999). Managements' primary goal is shareholders' wealth maximization, which translates into maximizing the value of the organization as measured by the dividend payout (Chen & Dhiensiri, 2009).

In both their observations Al-Malkawi, (2007) and Fama and Babiak (1968) noted that dividend policy can be of two types: managed and residual. In residual dividend policy the amount of dividend is simply the cash left after the firm makes desirable investments using Net Present Value rule. In this case the amount of dividend is going to be highly variable and often zero. If the manager believes dividend policy is important to their shareholders and it positively influences share price valuation, they will adopt managed dividend policy. The optimal dividend policy is the one that maximizes the organization's share price, which leads to maximization of shareholders' wealth.

According to Jensen & Johnson (1995) companies with less prospects and facing financial problems certainly find it hard to pay dividends while the company that pays dividends provides a sign to the market that the company has bright future prospects and is able to maintain the level of dividend policy that had been set in the previous period and this has a positive impact on the value of the company. Dividend announcement by a company is a signal to shareholders that management has a high cash flow forecast future; conversely, the decline in dividend payments is interpreted as anticipation of the limited cash flow in the future (Allen & Michaely, 2002).

1.1.2 Growth of Medium Enterprises

The enterprise growth is the unification of quantity and quality. The increase of quantity is embodied in the extension of enterprise scale such as the increases of sales volume, market share, production value, profit and employee. And the growth of quality is embodied in the enhancement of enterprise quality, which includes the technological innovation ability from immature to mature production technology, the optimal efficiency of investment and output, the organizational innovation and reform (Sun, 2004).

Growth is often closely associated with firm overall success and survival (Johannisson, 1993). Growth has been used as a simple measure of success in business (Storey, 1994). Also, as Brush and Vanderwerf (1992) suggest, growth is the most appropriate indicator of the performance among firms. Moreover, growth is an important precondition for the achievement of other financial goals of business (de Geus, 1997). It has been also found that strong growth may reduce the firm's profitability temporarily, but increase it in the long run (Reynolds, 1993).

Firm growth has been operationalized in many ways and different measures have been used (Davidsson & Wiklund, 2000). The most frequently used measure for growth has been change in the firm's turnover (Hubbard & Bromiley, 1995). Another typical measure for growth has been change in the number of employees. previous research reveals that firm growth is a multidimensional phenomenon and that there is substantial heterogeneity in a number of factors associated with firm growth

1.1.3 Relationship between Dividend Policy and Growth of Medium Enterprises

Dividend policies influence the growth of small and medium enterprises as investors are attracted towards the company whose payout policy best suits their investment objectives because investors face different tax treatments on dividend and capital gain and incur cost when they trade securities. Therefore, their preference towards dividend and capital gain create clienteles which force them to select a company whose dividend policy is aligned with their investment strategy (Gugler & Yurtoglu, 2003). Many enterprises including medium enterprises generally adopt dividend policies that suit the stage of life cycle they are in. For instance, high- growth enterprise with larger cash flows and fewer projects tend to pay more of their earnings out as dividends.

The effects of the firms' dividend decision on the growth of medium enterprises include ownership structure which has a positive relationship between the degree of institutional ownership and dividend payments (Rezvaniraz, 2010). The relationship of leverage with dividend payout is mixed. The higher the leverage of the firm the lower is the dividend payout; this could be because of the debt covenants. Rozeff (1982) points out those firms with high financial leverage tend to have low payout ratios in order to reduce the transaction costs associated with the external financing. Similarly Al-Malkawi (2007) confirmed that the firms financial leverage is significantly and negatively related to its dividend policy, where as Kania and Bacon (2005) have found a significant positive relationship, bringing out the fact that the firms have higher debt funds to pay off dividends.

The link of ownership structure with the dividend payout has been closely monitored by many researchers. Institutional investors play an effective role at monitoring management than the individual investors. Because of their investment size and the resources at their disposal, Institutional investors have better incentive and capabilities to collect and evaluate information pertaining to their investments. They also possess the clout to discipline management and even bring about the changes when management performs inadequately (Stouraitis & Wu, 2004). Since institution manage larger pool of funds and investment of funds is higher therefore to avoid risk they should allocate resources to monitoring (Grossman and Hart, 1980; Shleifer and Vishny, 1986).Pound (1988) commented that the institutional investors act as a controlling indicator to overinvestment problems.

The liquidity or cash flows position is another important determinant of dividend payouts. Dividend payments depend more on cash flows which reflect the company's ability to pay dividends (Gugler & Yurtoglu, 2003). The greater the liquidity of a company by having stable cash flow greater its ability to pay a dividend. Company going through development and growth may not be liquid because its funds may go into permanent working capital and fixed assets. Companies desire to maintain liquidity up to certain level in order to provide cushion to provide financial flexibility and protection against uncertainty. So in order to avoid uncertainty they may be reluctant to jeopardize this position by paying dividend (Rezvaniraz, 2010).

1.1.4 Medium Enterprises in Nairobi County

Medium enterprise is described as an enterprise with more than fifty (50) but not less than one hundred (100) persons and whose annual turnover is between five (5) million and eight hundred (800) million Kenya Shillings (MSME Act, 2012)

Medium enterprises sub-sector in Kenya, face limited market access due to limited access to market information and marketing capacity, poor quality products and ineffective markets. Yet their services and product or brand growth is of importance to the economy. In fact in combination with the Small enterprises the medium enterprises sector contributes an estimated 18.4 per cent of GDP to the country's economy and employs about 85 percent of the Kenyan workforce (about 7.5 million Kenyans of the country's total employment) (Africa Development Bank, 2011) (Central Bureau of Statistics, 1999). There are various initiative aimed at promoting the growth of the subsector such as the Top 100 Medium Enterprises award established by Nation Media group and KPMG. The top 100 medium enterprises which seeks to identify Kenya's fastest growing medium sized companies in order to show case business excellence and highlight some of the country's' most successful entrepreneurship stories

1.2 Research Problem

In discussing dividend policy Bernstein (1996) indicated that dividend decisions are recognized as centrally important in most medium enterprises because of the increasingly significant role of the finances in the firm's overall growth strategy. The reaction to dividend increases and dividend decreases suggests that shareholders interpret these changes as positive or negative news, as the case may be, about the organization (Chen & Dhiensiri , 2009). Kanwal and Kapoor, (2008) suggest that the level of dividend convey signals to the market about the future of the firm.

However, most medium enterprises experience poor growth because of a number of limitations arising from poor capital structure, poor liquidity (cash flow) management, undefined ownership structure, poor profitability and constrained communication and less competent staff and management among others. This state of affairs influence the dividend policy of the enterprises which in turn influence the overall growth of the medium enterprises

There are several empirical studies, for instance, in their studies on studied dividend policy and ownership structure Al-Nawaiseh et al. (2013) established that family ownership was negatively but not significantly related to dividend policy, and institution ownership was positively and significantly influenced dividend policy. AL-Shubiri et al (2010) examined the relationship capital structure and dividend policy of the Jordanian industrial firms for the year of 2005-2009. The results suggest that ownership structure approach is highly relevant to an understanding of corporate dividends policy in Jordan. In their investigation Azfa & Mirza (2010) of cash flows as determinants of corporate dividend policy in Pakistan. The study established that operating cash-flow and profitability were positively related to cash dividend payout. Mwangi, Makau and

Kosimbei (2014) investigated the relationship between capital structures on the performance of non-financial companies listed in the Nairobi Securities Exchange (NSE), Kenya. Results of the study revealed that financial leverage had a statistically significant negative association with performance as measured by return on assets (ROA) and return on equity (ROE). Nkobe, Simiyu and Limo, (2013) study sought to determine the impact of dividend policy on share price volatility in Kenya. Results of the study showed dividend is the major determinants of share price. Mahalang'ang'a and Ochuodho (2012) examined the relationship between dividend payout and firm performance among listed firms in the Nairobi Securities Exchange. The findings indicated that dividend payout was a major factor affecting firm performance. Maniagi, Musiega, Mutirithia, Ondiek, Okaka and Musiega (2013) study focused on the aspects regarding relationships between corporate governance, dividend policy and performance of banks listed on Nairobi security exchange for 5year period from 2007-2011. The found out that dividend yield for banks listed on NSE as proxy of dividend policy is significant and positively correlated to business risk and growth opportunities

Previous empirical studies have focused mainly on developed economies and on effects of dividend policies of developed markets, which may not hold true for emerging markets like Kenya. Besides the available local studies on dividend policy have mainly focused on listed companies with limited focus on the medium enterprises. Hence, the relationship between the determinants of dividend policy and the growth of medium enterprises in Kenya has not been fully researched. Hence this study sort to examine the the relationship between determinants of dividend policy and the growth of Medium enterprises in Kenya by answering the following research question: how does capital leverage, liquidity and ownership affect growth of medium enterprises in Kenya?

1.3 Research Objective

To establish the effects of dividend policy on the growth of selected medium enterprises in Nairobi County, Kenya.

1.4 Value of the Study

This study is important to the management of the medium enterprises for financial strategic cooperate planning and forecasting being that, such firms will adopt a proactive rather than a reactive posture in dealing with the issue of dividend policy. The outcome of this study will serve as an advice to the medium enterprises management on the measures needed to enhance and maintain their growth and future possible listing at NSE if need be.

Government will also find this study an invaluable source of information in identifying the factors that play a major role in the growth of medium enterprises to avoid their collapse. This assists to develop policies/regulations that will enhance and help to uphold ethics in the process growing medium enterprises.

The study will be significant to researchers and scholars too. They will benefit from the study as it will add on to the growing body of knowledge in finance management practices in Kenya. It will act as a source of reference for studies to be done in this area.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

In this chapter, literature, which is related to and consistent with the objectives of the study, is reviewed. Important theoretical and practical problems are brought out; relevant literature on the aspects pertaining to the relationship between determinants of dividend policy and the growth of medium enterprises in Kenya is discussed.

2.2 Theoretical Foundation

The study is based on dividend relevance theory and life cycle theory

2.2.1 Dividend Relevance Theory

The dividend relevance theory proposed by Lintner and Gordon (1997) relaxes the assumption of perfect capital markets and rational investors. It analyses, empirically, the behavior patterns of dividend distributions and their effects on the value of the firm. In the real-world, market frictions are not costless and at most investors do not always act rationally (Lease et al 2000).The dividend relevance theory was also seen as a reaction to the dividend irrelevance theory that stated, under conditions of certainty and uncertainty, that changes in dividend policy do not affect firm value. Botha (1985) defines dividend policy under the relevance theory, as follows: “The dividend policy is a practical approach which treats dividends as an active decision variable and retained earnings as the residue; dividends are more than just a means of distributing net profit, and that any variation in dividend payout ratio could affect shareholders’ wealth; a firm should therefore endeavor to establish an optimal policy that will maximize shareholder’s wealth. Lintner and Gordon (1997) pioneers of the dividend relevance theory argued that shareholders prefer dividends to capital gains. Fundamental to this proposition is their bird-in-the-hand argument, which suggest that investors are generally risk-averse and attach less risk to current as opposed to future dividends or capital gains; current dividend payments are therefore believed to reduce investor uncertainty, causing investors to discount the firms earnings at a lower rate, thereby - all else being equal - placing a higher value on the firm.

Gordon (1962) thus argued, (in Botha 1985) that the uncertainty of the future makes the price of a share dependent upon the dividend policy. Therefore the greater the present dividend in relation to retained earnings, the higher the relative share price is likely to be. Shareholders are therefore not indifferent to dividends and capital gains. Shareholders prefer the early resolution on uncertainty, and will pay a higher price for a share which has a greater dividend payout ratio. Further, future dividends are discounted at a rate which increases level of risk. In other words, if shareholders' perception of risk increases with increasingly distant future returns, Gordon argues that any reduction in current dividends in favour of large future dividends might lead to a decline in current share price.

2.2.2 Life Cycle Theory

Firms generally adopt dividend policies that suit the stage of life cycle they are in (Fama & French, 2001). Life cycle theory states that the most appropriate development strategy is to look at corporate life cycle stages. Anthony and Ramesh (1992) states that the company is in growth phase tend to have low levels of dividend payments, strong sales growth, high capital expenditure, and the relatively young age. While firms in mature stage characterized higher dividend payments, low sales growth, lower capital expenditure, and the relatively older age.

Meanwhile, Aharony, Falk and Judah (2003) describe the characteristics of companies in every stage of life cycle as follows: Stages of start-ups marked with limited assets, the opportunity for growth, earnings and cash flow from operating activities of low and relatively young age. At growth stage is marked with more assets owned, rapid growth, earnings and cash. In the mature stage characterized by low growth and the company becomes cash cow. Fama and French (2001) divide into two stages of the life cycle of the strong growth (growth stage) and low growth (mature stage). Using 750 samples from 1963 to 1998 period, found relationship between life cycle stages with dividend payment policy, which the company at this stage tend to maintain its profit growth. This differs from the company at mature stage, marked by the trends in dividend payment. This study also shows that companies that distribute cash dividends fell from 66.5% in 1978 to 20.8% in 1999.

2.3 Effects of Dividend Policy on the Growth of Medium Enterprises (ME's)

Growth is a process and is characterized by competencies, markets, and organisation, staffing and management techniques. As a matter of fact, growth often has instrumental value. A company's growth is needed to ensure an adequate production volume for profitable business. Growth can serve as an instrument for increasing profitability by enlargement the firm's market-share, securing the continuity of business in the conditions of growing demand or achieving economies of scale. Growth may bring the firm new business opportunities (Timmons 1999), and a larger size enhances its credibility in the market, besides achieving a higher net value

Growing company will be reflected from the company's stock price increases. So companies with high investment opportunities will have bright prospects ahead and will affect the company's stock price. Jensen (1986) argues that managers of public companies have an incentive to expand the company beyond the optimal size, although the expansion is done on projects that have a negative net present value. Condition of overinvestment is done by using internal funds generated by the company in the form of free cash flow.

The enterprise growth is the unification of quantity and quality. The increase of quantity is embodied in the extension of enterprise scale such as the increases of sales volume, market share, production value, profit and employee. And the growth of quality is embodied in the enhancement of enterprise quality, which includes the technological innovation ability from immature to mature production technology, the optimal efficiency of investment and output, the organizational innovation and reform (Sun, 2004).

Growth is often closely associated with firm overall success and survival (Johannisson, 1993). Growth has been used as a simple measure of success in business (Storey, 1994).

Also, as Brush and Vanderwerf (1992) suggest, growth is the most appropriate indicator of the performance among firms. Moreover, growth is an important precondition for the achievement of other financial goals of business (de Geus, 1997). It has been also found that strong growth may reduce the firm's profitability temporarily, but increase it in the long run (Reynolds, 1993).

Firm growth has been operationalized in many ways and different measures have been used (Davidsson & Wiklund, 2000). The most frequently used measure for growth has been change in the firm's turnover (Hubbard & Bromiley, 1995). Another typical measure for growth has been change in the number of employees. previous research reveals that firm growth is a multidimensional phenomenon and that there is substantial heterogeneity in a number of factors associated with firm growth.

A firm's leverage plays a key role in explaining firm's dividend policy. Leverage is negatively related to dividends, this means that firms with low debt ratios are willing to pay more dividends. "Firms with relatively less debt and more tangible assets have greater financial slack and more able to pay and maintain their dividends (Aivazian et al., 2003). Firms with high leverage ratios have high transaction costs, and are in a weak position to pay higher dividends to avoid the cost of external financing. A firm's profitability is considered to be an important factor that affects its dividend policy.

The higher the leverage of the firm the lower is the dividend payout; this could be because of the debt covenants. Rozeff (1982) points out those firms with high financial leverage tend to have low payout ratios in order to reduce the transaction costs associated with the external financing. Similarly Al-Malkawi (2007) confirmed that the firms' financial leverage is significantly and negatively related to its dividend policy. Debt always involves high risk as it must be paid off. However, it allows companies to manage return on equity for shareholders. High financial leverage is associated with risk, so highly leveraged companies pay lower dividends to protect creditors and maintain internal cash flow to fulfill their responsibility. That is, highly leveraged firms pay lower dividends to reduce their transaction costs (Gugler &Yurtoglu, 2003). This suggests that non-dividend paying firms have high leverage in comparison to dividend paying firms.

The negative impact of leverage upon the dividend payment documented by Higgins (1972) and McCabe (1979) who finds that companies with higher leverage normally pay lower dividend to avoid the higher cost of raising external capital for the company.

The link of ownership structure with the dividend payout has been closely monitored by many researchers. Pound (1988) commented that the institutional investors act as a controlling indicator to overinvestment problems. Institutional investors, with more available recourses and knowledge, not only can do monitoring but sometimes they influence corporate information which individual investors cannot (Michaely and Shaw, 1994). Eckbo and Verma (1994) in their study concluded that institutional shareholder in order to reduce agency costs prefer the free cash flow distribution in the form of dividends. Researchers have suggested dividend payment as an apparatus to control the management compass as the inside ownership provide direct opportunity to use internal funds on unprofitable projects. This approach anticipates negative relationship between insider ownership and dividend payout (, Perry & Rimbey 1995; Short, Zhang & Keasey, 2002). D'Souza (1999) observed the negative relationship among agency cost and market risk with dividends payment.

The liquidity or cash flows position is another important determinant of dividend payouts. Dividend payments depend more on cash flows which reflect the company's ability to pay dividends (. Ho, 2002). The greater the liquidity of a company by having stable cash flow, greater is its ability to pay a dividend. Company going through development and growth may not be liquid because its funds may go into permanent working capital and fixed assets (La Porta et al, 2000). According to Jensen's (1986) Free Cash Flow Hypothesis, companies prefer to use their cash resources to invest in profitable projects first and dividends are paid out of residual.

Dividend and interest payment reduces the free cash flow available to management, hence reducing the chance of using it in less profitable projects or on managers' prerequisites. From companies' point of view, cash generated from operations plays an important role in deciding the amount of payout; companies having greater cash flow generated from operations are expected to be in a better position to pay cash dividends rather than companies having negative operating cash flows.

2.4 Empirical Literature Review

Mwangi, Makau and Kosimbei (2014) investigated the relationship between capital structures on the performance of non-financial companies listed in the Nairobi Securities Exchange (NSE), Kenya. The study employed an explanatory non- experimental research design. A census of 42 non-financial companies listed in the Nairobi Securities Exchange, Kenya was taken. The study used secondary panel data contained in the annual reports and financial statements of listed non-financial companies. The data were extracted from the Nairobi Securities Exchange hand books for the period 2006-2012.The study applied panel data models (random effects). Feasible Generalised Least Square (FGLS) regression results revealed that financial leverage had a statistically significant negative association with performance as measured by return on assets (ROA) and return on equity (ROE). The study recommended that managers of listed non-financial companies should reduce the reliance on long term debt as a source of finance.

In their studies on studied dividend policy and ownership structure Al-Nawaiseh et al. (2013) used a sample consisting of sixty two industrial firms listed on Amman Stock Exchange ASE). Tobit Model or censored regression model was used to test the study hypotheses for the level of dividend. The family ownership was negatively but not significantly related to dividend policy, and institution ownership was positively and significantly influenced dividend policy. The multiple ownership structure was negative and insignificant to dividend policy

Nkobe, Simiyu and Limo, (2013) study sought to determine the impact of dividend policy on share price volatility in Kenya. The study used data from the actively trading companies listed in the Nairobi Securities Exchange for a period of ten (10) years from 1999 – 2008. The estimation is based on multiple regression analysis between dividend policy measures (dividend payout ratio and dividend yield) and Share price volatility. From the regression results showed dividend is the major determinants of share price volatility in NSE (β =- 0.470, ρ<0.05). Dividend yield negatively positively affect share price volatility (β =0.124, ρ<0.05). Thus, the higher the payout ratio the less the share price volatility, and the higher the dividend yield the lower the share price volatility.

Mahalang'ang'a and Ochuodho (2012) examined the relationship between dividend payout and firm performance among listed firms in the Nairobi Securities Exchange. Regression analysis was carried out to establish the relationship between dividend payout and firm performance. The findings indicated that dividend payout was a major factor affecting firm performance. Their relationship was also strong and positive. This therefore showed that dividend policy was relevant. It can be concluded, based on the findings of this research that dividend policy is relevant and that managers should devote adequate time in designing a dividend policy that will enhance firm performance and therefore shareholder value.

Wamugo, Muathe, and Kosimbei (2013) study investigated the relationship between capital structure on the performance of non-financial companies listed in the Nairobi Securities Exchange (NSE), Kenya. The study employed an explanatory non-experimental research design. A census of 42 non-financial companies listed in the Nairobi Securities Exchange, Kenya was taken. The study used secondary panel data contained in the annual reports and financial statements of listed non-financial companies. The data were extracted from the Nairobi Securities Exchange hand books for the period 2006-2012.The study applied panel data models (random effects). Feasible Generalised Least Square (FGLS) regression results revealed that financial leverage had a statistically significant negative association with performance as measured by return on assets (ROA) and return on equity (ROE). The study recommended that managers of listed non-financial companies should reduce the reliance on long term debt as a source of finance.

Maniagi, Musiega, Mutirithia, Ondiek, Okaka and Musiega (2013) study focused on the aspects regarding relationships between corporate governance, dividend policy and performance of banks listed on Nairobi security exchange for 5year period from 2007-2011. Apart from the available researches which mainly show relationships of two aspects, the present study focuses on the relationship of three aspects of banks which interlink from stakeholders perspective and can cause economic decline or success. The paper found out that dividend yield for banks listed on NSE as proxy of dividend policy is significant and positively correlated to business risk and growth opportunities GO thus tend to follow signaling hypothesis, also positively correlated to CEO duality but negative and significant to board independence as corporate governance proxies. Return on assets ROA as a performance indicator is positively correlated to board size (number of directors) and is significant.

AL-Shubiri et al (2010) examined the relationship capital structure and dividend policy of the Jordanian industrial firms for the year of 2005-2009. The results suggest that ownership structure approach is highly relevant to an understanding of corporate dividends policy in Jordan. The results indicate that there is a significantly negative correlation between the institutional ownership and dividend per share, and a significantly negative relationship between the state ownership and the level of dividend distributed to shareholders. The results also indicate that the higher the ownership of the five largest shareholders, the higher the dividend payment

In their investigation Azfa & Mirza (2010) of ownership structure and cash flows as determinants of corporate dividend policy in Pakistan. The study analyzed three years data (2005-2007) of 100 companies listed at Karachi Stock Exchange (KSE) and used Ordinary Least Square (OLS). The dependent variables were dividend payout, while, dividend intensity and managerial ownership, individual ownership were independent variables. The study used OLS regression model to analyse the relationship. The study established that managerial and individual ownership, cash flow sensitivity, size and leverage are negatively related to dividend payout, while operating cash-flow and profitability were positively related to cash dividend payout

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The chapter looks at the study design, target and sample populations, sampling techniques, research instruments, data collection, data quality control, data analysis.

3.2 Research Design

The study adopted cross-sectional descriptive survey. It was suitable for this study because of the large number of respondents involved and the fact that data was collected at one point in time, (Mugenda, 2003).

3.3 Target Population

The target population consisted of 311 medium enterprises located in Nairobi Central Business District (NCBD) as provided by business licensing office of Nairobi County Council. 311 is the number of medium enterprises which had renewed their business licenses for 2014 within NCBD. From this target population finance/account managers were drawn as respondents. The choice of medium enterprises as a target of study is informed by the fact that most of them have dividend policies which is lacking in small enterprises.

3.4 Sample Design

Simple random sampling method was used to select a 20% sample from the target population of 311 medium enterprises hence obtaining a sample of 62 medium enterprises for a period of five years from 2009 to 2013 which finance managers drawn as respondents. This sample size is adequate for study according to Mugenda, (2003).

3.5 Data Collection

Primary data was used. It was collected using a semi-structured questionnaire. The questionnaire had closed ended questions only. Instrument validation was achieved through pre-test. This was done by administering the instrument to conveniently selected professionals in the field of finance management. On the basis of their response the instrument was adjusted appropriately. Content validity involved examination of the context to determine whether it covered a representative sample of the measurement items, (Kerlinger, 2002). Cronbach's Alpha was used to test for reliability. This is a scale measurement tool, which is commonly used in social sciences to establish the consistency of items or factors within and among variables of study, (Nunnally, 1967).

3.6 Data Analysis

The independent variables- leverage was measured by current and long term liabilities /total Shareholder's fund; liquidity was measured by current ratio (Current Assets/Current Liabilities); Ownership Structure was measured by percentage of shares held by various shareholders divided by total number of shares. Organization growth was measured by increase in sales, market share and profitability. The data collected was analyzed using descriptive, correlation and regression statistics with the aid of SPSS 17. The following regression model was used:

$Y=\alpha + \beta 1X1+ \beta 2X2 + \beta 3X3 + \varepsilon it$

Where,

Y= Dependent variable (Growth of Medium Enterprises)

X1-3= Independent Variables (leverage, Liquidity and Ownership Structure)

α = Constant

β_{1}-$_{3}$ = regression coefficient

εit = error term

CHAPTER FOUR

DATA ANALYSIS & PRESENTATION OF FINDINGS

4.1 Introduction

This chapter presents the analysis of study findings on the effects of dividend policy on the growth of selected medium enterprises in Nairobi County, based on the specific factors which include the effect of capital structure (leverage), financial liquidity and ownership structure on the growth of medium enterprises in Nairobi County. This chapter presents analyses of the variables involved in the study and estimates of the model presented in the previous of the chapter.

4.2 Data Findings

4.2.1 Response Rate

From the 62 questionnaires that were distributed to the respondent 53 questionnaires representing 85.5% were returned fully completed, while 9 questionnaires were not returned representing 14.5% of the total questionnaires distributed to the respondents. It can be inferred that the response rate was good. According to Mugenda and Mugenda (2003) a response rate of 70% and over is excellent for analysis and reporting on the opinion of the entire population.

4.2.2 Demographic Characteristics

The researcher sought to know the demographic characteristics of the respondents relating to the gender, levels of education, line of business and length of existence of the business

Table 4.1 Demographic Characteristics

Demographic factors	**Categories**	**Frequency**	**Percentage**
Gender	Male	31	58.5
	Female	22	41.5
Level of Education	Secondary	5	9.4
	College	25	47.2
	University	17	32.1
	Other	6	11.3
Line of business	Manufacturing	7	13.2
	ICT	3	5.7
	Construction	9	17.0
	Retail	15	28.3
	Wholesale	13	24.5
	Others	6	11.3
Length of existence	1-4 Years	23	43.4
	5 – 10 years	14	26.4
	10 years and above	17	32.1

Source, Field Data (2014)

The results shown on table 4.1 above indicate that majority, (58.5%), (47.2%), (28.8%) and (43.4%) of the respondents indicated respectively that they were male, had reached college, were involved in retail trade and were involved in the business for over 10 years

4.2.3 Growth of Medium Enterprises

Table 4.2 below shows the views of the respondents on indicators of growth of medium enterprises.

Table 4.2 Indicators of Growth of Medium Enterprises

	N	Mean	SD
There has been an increase in organization sales	53	2.01	.007
There is an increase in organization market share	53	2.27	.205
There is improved Profitability as evidenced by return on investment and Return on Assets	53	2.33	.248
There is reduced transactional cost	53	2.36	.251
There has been an increase in the coverage of the market	53	2.42	.235

Results of the study shown on table 4.2 above indicate that majority (mean = 2.42 and SD = 0.235) of the respondents agreed that the growth of medium enterprises is indicated by coverage of the target market, while the least (mean=2.01 and SD=0.007) of respondents acknowledged that increase in organization sales is the best indicator of growth of medium enterprises.

4.2.4 Payment of Dividend in Medium Enterprises

The study sought to determine whether the enterprises have in the past paid out dividends to its shareholders and whether they have dividend policy to guide them in the payment of dividends to their shareholders

Table 4.3 Frequency Distribution of Payment of Dividend

Question	**Scale**	**Distribution**	
		f	**%**
Has your organization paid out dividends to its shareholders?	Yes	42	79.2
	No	11	20.8

Question	Scale	Distribution	
		f	**%**
Does your organization have dividend policy to guide in the payment of dividends	Yes	51	96.2
	No	2	3.8

Source: Research Data (2014)

Findings on table 4.2 above shows that majority (79.2%) and (96.2%) of the respondents indicated that the enterprises have paid out dividends to its shareholders and that they have a policy to guide the payment of dividends

4.2.5 Leverage

The study below sought to determine the leverage ratios of MEs for the last five years.

Table 4.4 Leverage ratios of Medium Enterprise

	Categories	N	Mean	SD
Leverage	0.01-1.0	51	2.21	.138
	1.1-10.0	51	2.36	.207
	10.1-20.0	51	2.54	.213
	20.1-30.0	51	2.70	.235
	30.1 and above	51	2.56	.229

Source: Research Data, (2014)

Findings of the study on table 4.4 shows that majority (Mean = 2.70) of the medium enterprises have leverage ratios of between 20.1 -30.0, while least (Mean =2.21) number of medium enterprises have leverage ratios of between 0.01-1.0. Leverage ratio category of 0.00-1.0 had a larger (0.138) standard deviation implying that the category has high variation exhibited in the movement of enterprises into and out of the category

The study sought to find out whether the leverage (capital structure) affects the growth of medium enterprises

Table 4.5 Whether Leverage affect growth of medium enterprises

Question	**Scale**	**Distribution**	
		f	**%**
In your view does capital structure affect growth of medium enterprises in Kenya	Yes	39	76.5
	No	12	23.5
	Total	**51**	**100**

Source: Research Data (2014)

Results of the study on table 4.5 above show that 76.5% of the respondents agreed that capital structure affects the growth of medium enterprises, while 23.5% of the respondents indicated that capital structure does not affect the growth of medium enterprises

The study below sought to establish the effects of capital structure on the growth of medium enterprises.

Table 4.6 Effects of Capital Structure on the Growth of Medium Enterprises

	N	Mean	SD
Enterprise with higher short term and long term liabilities pay lower dividends and inhibit the firm ability to attract external funds	51	2.38	.490
Enterprise with higher shareholder’s funds pay higher dividends and attract additional funds and assets	51	1.47	.502

	N	Mean	SD
Enterprise with low debt ratios are willing to pay more dividends hence attract investors to the company	51	1.49	.513
Enterprises with relatively less debt and more tangible assets have greater financial capability to pay dividends and finance its operations and investments	51	1.55	.521
Enterprises with high leverage ratios have high transaction costs, and are in a weak position to pay higher dividends hence experience poor growth	51	2.42	.609
Highly leveraged companies pay lower dividends to protect creditors and to maintain cash flow to fulfill their financial obligations.	51	2.33	.102
Enterprises with higher leverage pay lower dividend to avoid higher cost of raising external capital	51	2.10	.281

Findings of the analysis shown on table 4.6 above indicate that majority (Mean=2.42 and SD=.281) agreed that enterprises with high leverage ratios have high transaction costs, and are in a weak position to pay higher dividends hence experience poor growth, while the least (Mean=2.47 and SD=502) number of respondents agreed that enterprises with higher shareholder's funds pay higher dividends and attract additional funds and assets

4.2.6 Financial Liquidity

The study below shows the current ratio of medium enterprise for the last five years (2008-2012)

Table 4.7 Current Ratios of Medium Enterprises

	Categories	N	Mean	SD
Current Ratio	0.00-1.00	51	2.43	.221
	1.1-5.00	51	2.52	.167
	5.01- 10.00	51	2.27	.251
	10.1-15.00	51	2.23	.317
	15.1-20.00	51	1.52	.243
	20.1 and above	51	1.26	.179

Source: Research Data, (2014)

Findings of the study on table 4.7 above shows that majority (Mean = 2.43) of the medium enterprises had current ratios of between 1.1 -5.00, while least (Mean =1.26) number of enterprises had current ratios of between 20.1 and above. Relative to the other categories, current ratio category of 5.01- 10.00 had a large (0.251) standard deviation meaning that this category had high variation in the movement of enterprises in and out of the category .

The study sought to establish whether financial liquidity affects Growth of Medium Enterprises

Table 4.8 Whether Financial Liquidity affects Growth of Medium Enterprises

Question	Scale	Distribution	
		f	%
In your considered view does financial liquidity affect the growth of medium enterprises?	Yes	42	82.4
	No	9	17.6
	Total	**51**	**100**

Source: Research Data (2014)

Results of the study shown on table 4.8 indicated that 82.4% of the respondents acknowledged that financial liquidity affect the growth of medium enterprises, while 17.6% of the respondents indicated that financial liquidity does not affect the growth of medium enterprises

The study sought to determine the effect of financial Liquidity on the growth of medium enterprises.

Table 4.9 Effect of Financial Liquidity on the Growth of Medium Enterprises

	N	Mean	SD
Liquid current assets ensure payment of dividends and continued financing of operations and market expansion	51	2.38	.181
Liquid current liabilities negatively affect the growth of the medium enterprises	51	1.45	.501
The greater the liquidity of a company the greater its ability to pay a dividend	51	2.19	.663
Dividend payments reduces the free cash flow available to management, hence reducing the misuse of funds	51	2.15	1.163
Cash liquidity plays an important role in deciding the amount to be paid out and retained	51	2.26	1.291
higher cash holdings and retention of greater portion of the cash earned negatively affect dividend payment	51	2.34	1.254

Source: Research Data (2014)

Findings of the study shown on table 4.9 above indicate that Liquid current assets ensure payment of dividends and continued financing of operations and market expansion with a mean of 2.38 and standard deviation of 0.181 has a higher influence on the growth of medium enterprises, while, the influence of liquid current liabilities on the growth of the medium enterprises with a mean of 1.45 and standard of 0.501 has relatively lower influence on the growth of medium enterprises

4.2.7 Ownership Structure

The study below shows the ranges of ownership structure of fifty one (51) medium enterprises the past five years (2008-2012)

Table 4.10 Ownership Structure of Medium Enterprises

	Institutional Shareholders		**Management Shareholders**		**Individual Shareholders**	
Range (% of Shares)	Mean	SD	Mean	SD	Mean	SD
0.00-9.9	1.34	.112	2.43	.728	2.61	.227
10.00-19.9	1.98	.390	2.32	.518	2.53	.036
20.00-29.9	2.04	.245	2.35	.569	2.58	.362
30.00-39.99	2.10	.172	2.14	.526	2.26	.103
40.00-49.99	2.18	.185	2.10	.263	2.86	.177
50.00-59.99	2.19	.018	2.05	.462	2.27	.478
60.00-69.99	2.24	.250	1.86	.702	2.33	.129
70.00-79.99	2.35	.197	1.20	.408	1.97	.115
80.00-89.99	2.73	.175	1.35	.530	1.58	.081
90.00-100.00	2.82	.110	1.17	.374	1.39	.101

Source: Research Data, (2014)

Results of the study on table 4.10 above indicate that most of the enterprises had majority ownership of individual shareholders holding shares in the range of 1.00-69.99 as evidenced by Means of (2.61), (2.53), (2.58), (2.26), (2.86), (2.27) and (2.33); while most enterprises had institutional shareholders holding most shares in the range of 70.0-100.0 as evidenced by the means of (2.35), (2.73) and (2.83)

The sought to determine whether ownership structure affect growth of medium enterprises

Table 4.11 Whether Ownership Structure affect growth of medium enterprises

Question	Scale	Distribution	
		f	**%**
In your considered view does ownership structure affect the growth of medium enterprises?	Yes	37	72.5
	No	14	27.5
	Total	**51**	**100**

Source: Research Data (2014)

Results on table 4.11 above show that 72.5% of the respondents indicated that ownership structure affect the growth of medium enterprises; while 27.5% indicated that ownership structure does not affect the growth of medium enterprises

The research also sought to find out the effects of ownership structure on the growth of medium enterprise

Table 4.12 Effects of Ownership Structure on the Growth of Medium Enterprise

Statements	**N**	**Mean**	**SD**
Percentage of shares held by various shareholders influence dividend payout and subsequently growth of the enterprise	51	2.51	.355
The total numbers of shares in the enterprise influence dividend payout and growth	51	2.23	.490
The number of institutional shareholders ensure increased dividends and organizational finances	51	2.10	.540

Statements	N	Mean	SD
Inside ownership affect dividend payments as it provides direct opportunity to use internal funds on investments.	51	1.63	.120
Insider ownership negatively affect dividend payout hence growth of enterprises	51	1.38	.208

The findings of the study on table 4.12 above show that most (mean = 2.51 and S.D=.355) of the respondents agreed that the percentage of shares held by various shareholders influence dividend payout and subsequently growth of the enterprise, while the least (mean =1.38 and S.D = .208) number of respondents agreed that Percentage of shares held by various shareholders influence dividend payout and subsequently growth of the enterprise.

4.2.9 Test of Significance

The study sought to establish if there is a relationship between growth of medium enterprises and capital structure (leverage), liquidity and ownership structure. The study used significance level (alpha) of 0.05 (95%), Degrees of freedom (df) of 5, and two-tailed test.

Table 4.13 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	df	Sig
1	.583[a]	.339[a]	.336 [a]	0.160	5	.008

a. Dependent Variable: Growth of Medium Enterprises

Results on table 4.13 above show that the degree to which capital structure (leverage), liquidity and ownership structure is related to growth of medium enterprises is expressed in the positive correlation coefficient (r) = 0.583 and coefficient of determination, (r2) =0.339. This implies that the three variables together predict about

33.9% of the growth of medium enterprises. On the other hand, the Adjusted R-square value of .336 implies that 33.6% (Adj R-square=.336) of the variance in the growth of medium enterprises can be explained by the variations in capital structure (leverage), liquidity and ownership structure

Analysis of variance was used to test the significance of the regression model as pertains to differences in means of the dependent and independent variables as shown on table 4.14 below.

Table 4.14 ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.552	4	1.088	3.503	.003a
	Residual	5.248	30	.175		
	Total	8.800	34			

a. Dependent Variable: Growth of Medium Enterprises

The ANOVA test produced an F-value of 3.503 which was significant at p=0.003. This depicts that the regression model is significant at 95% confidence level. That is, the model has a 0.3% probability of misrepresenting the relationship between growth of medium enterprises and capital structure (leverage), liquidity and ownership structure

The variation in the independent variables and dependent variable can be explained by the smaller significance value of the F values of 0.003 which is smaller than the significance level of 0.05 implying that that there is a (statistically) significant relationship between growth of medium enterprises and leverage, liquidity and ownership structure hence the study model is significant.

The study shown below sought to establish the significance of the relationship between dependent and independent variables by regressing Growth of Medium Enterprises (GME) as dependent variable against Leverage (LEV) Liquidity (LI) and Ownership Structure (OS) as independent variables based on the following regression model:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$$

Hence:

$$GME = \beta_0 + \beta_1 LEV + \beta_2\ LI + \beta_3\ OS + \varepsilon$$

Table 4.15: Coefficients

Variables	Co-efficients[a]				
	B	Standard Error	Beta	T	Sig
(Constant)	2.132	.521	.000	4.092	.000
leverage,	1.204	.601	.189	2.003	.004
Liquidity	1.019	.507	.020	2.009	.001
Ownership Structure	1.108	. 549	.120	2.081	.006

a. Dependent Variable: Growth of Medium Enterprises

Results on table 4.15 above indicate:

$$GME=2.132 + 1.204\ LEV+ 1.019\ LI + 1.108\ OW + \varepsilon$$

Thus the results indicate that leverage, liquidity and ownership structure have positive coefficients, implying that these independent variables are directly proportional to growth of medium enterprises. Therefore taking all independent variables (leverage, liquidity and ownership structure) constant at zero (0) growth of medium enterprises will be 2.132%. Therefore a unit increase in leverage, liquidity and ownership structure will lead to 1.204, 1.019 and 1.108 unit increases in growth of medium enterprises

The results of the study further indicates that p-values of = (0.004) for leverage, (0.001) for liquidity and (.006) for ownership structure are smaller than the significance level of 0.05. The implications of these results is that there is a significant relationship between leverage, liquidity and ownership structure and growth of medium enterprise .

4.3 Summary & Presentation of Findings

4.3.1 Capital Structure (Leverage)

Findings of the study indicated that most enterprises had high leverage ratio which has an effect on the payment of dividends and which in turn affect the growth of medium enterprises. The results of the study also showed that medium enterprise with higher short term and long term liabilities pay lower dividends and inhibit the firm ability to attract external funds, enterprises with higher shareholder's funds pay higher dividends and attract additional funds and assets while those with low debt ratios are willing to pay more dividends hence attract investors to the enterprises. The findings are in line with the views expressed by Al-Malkawi (2007) who indicated that the firms' financial leverage is significantly and negatively related to its dividend policy hence to organization growth

The study further revealed that enterprises with relatively less debt and more tangible assets have greater financial capability to pay dividends and finance its operations and investments, while those with high leverage ratios have high transaction costs, and are in a weak position to pay higher dividends hence experience poor growth. In addition the study results indicated that highly leveraged enterprises pay lower dividends to protect creditors, to maintain cash flow to fulfill their financial obligations and to avoid higher cost of raising external capital. The results of the study confirms the findings of Gugler and Yurtoglu, (2003) that high financial leverage is associated with risk hence highly leveraged firms pay lower dividends hence making the firms unattractive to other investors and this affects their growth

4.3.2 Financial Liquidity

Results of the study show that medium enterprises have lower current ratio which affects the payment of dividends and subsequently the growth of medium enterprises. The study findings indicated that cash liquidity plays an important role in deciding the amount to be paid out and retained and that enterprises that have higher financial liquidity possess the capacity to pay higher dividends. The findings of the study confirm the observations of Ho, (2002) and Gugler and Yurtoglu, (2003) that liquidity or cash flows position is an important determinant of dividend payouts as dividend payments depend more on cash flows which reflect the company's ability to pay dividends

The study also revealed that liquid current assets ensure payment of dividends and continued financing of operations and market expansion and that liquid current liability negatively affect the growth of the medium enterprises. Results of the study also showed that higher cash holdings and retention of greater portion of the cash earned negatively affect dividend payment and that dividend payments reduce the free cash flow available to management, hence reducing the misuse of funds. The study concurs with the views of Rezvaniraz, (2010) that enterprises are desirous of maintaining liquidity up to certain level in order to provide cushion to provide financial flexibility and protection against uncertainty hence in order to avoid uncertainty they pay dividends to the shareholders

4.3.3 Ownership Structure

Findings of the study showed that in most of the enterprises individual owners own high number of share which has an implication on the payment of dividends and finally on the growth of medium enterprises. The study also revealed that percentage of shares held by various shareholders influence dividend payout and subsequently growth of the enterprise and that the total numbers of shares in the enterprise influence dividend payout and growth. The findings are in line with the findings of Al-Nawaiseh et al. (2013) who established that family ownership was negatively but not significantly related to dividend policy, and institution ownership was positively and significantly influenced dividend policy. The multiple ownership structure was negative and insignificant to dividend policy

The results of the study further indicated that the number of institutional shareholders ensure increased dividends and organizational finances , that inside ownership affect dividend payments as it provides direct opportunity to use internal funds on investments and that insider ownership negatively affect dividend payout hence growth of enterprises. The study findings adds to the findings of Stouraitis & Wu, (2004) who found out that institutional investors have better incentive and capabilities to collect and evaluate information pertaining to their investments. They also possess the clout to discipline management and even bring about the changes when management performs inadequately.

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CHAPTER FIVE

SUMMARY, CONCLUSIONS & RECOMMENDATIONS

5.1 Introduction

The purpose of this chapter was to present summary, draw conclusions and recommendations on the findings of the main objective of the study which was to analyse the effects of dividend policy on the growth of selected medium enterprises in Nairobi County, based on the specific factors which include the effect of capital structure (leverage), financial liquidity and ownership structure on the growth selected medium enterprises

5.2 Summary of Findings

The study established that the dividend policy determined by capital structure affect growth of medium enterprises in Kenya. The study also found out that medium enterprise with higher short term and long term liabilities pay lower dividends and inhibit the firm ability to attract external funds, enterprises with higher shareholder's funds pay higher dividends and attract additional funds and assets while those with low debt ratios are willing to pay more dividends hence attract investors to the enterprises. The study also revealed that enterprises with relatively less debt and more tangible assets have greater financial capability to pay dividends and finance its operations and investments, while those with high leverage ratios have high transaction costs, and are in a weak position to pay higher dividends hence experience poor growth. In addition the study found that highly leveraged enterprises pay lower dividends to protect creditors, to maintain cash flow to fulfill their financial obligations and to avoid higher cost of raising external capital

The study show that the dividend policy determined by financial liquidity affects the growth of medium enterprises. The study also established that cash liquidity plays an important role in deciding the amount to be paid out and retained and that enterprises that have higher financial liquidity possess the capacity to pay higher dividends. The study also revealed that liquid current assets ensure payment of dividends and continued financing of operations and market expansion and that liquid current liability negatively affect the growth of the medium enterprises. The study further found out that higher cash holdings and retention of greater portion of the cash earned negatively affect dividend payment and that dividend payments reduces the free cash flow available to management, hence reducing the misuse of funds

The Study found out that dividend policy determined by ownership structure affect the growth of medium enterprises. The study also revealed that percentage of shares held by various shareholders influence dividend payout and subsequently growth of the enterprise and that the total numbers of shares in the enterprise influence dividend payout and growth. The study further established that the higher number of institutional shareholders in an enterprise ensure increased dividends and organizational finances , that inside ownership affect dividend payments as it provides direct opportunity to use internal funds on investments and that insider ownership negatively affect dividend payout hence growth of enterprises

5.3 Conclusion

Capital structure affect growth of medium enterprises in Kenya thus medium enterprise with higher short term and long term liabilities pay lower dividends and inhibit the firm ability to attract external funds. Enterprises with higher shareholder’s funds pay higher dividends and attract additional funds and assets while those with low debt ratios are willing to pay more dividends hence attract investors to the enterprises. Enterprises with relatively less debt and more tangible assets have greater financial capability to pay dividends and finance its operations and investments, while those with high leverage ratios have high transaction costs, and are in a weak position to pay higher dividends hence experience poor growth. In addition highly leveraged enterprises pay lower dividends to protect creditors, to maintain cash flow to fulfill their financial obligations and to avoid higher cost of raising external capital

Financial liquidity affects the growth of medium enterprises as cash liquidity plays an important role in deciding the amount to be paid out and retained and that enterprises that have higher financial liquidity possess the capacity to pay higher dividends. Liquid current assets ensure payment of dividends and continued financing of operations and market expansion and that liquid current liability negatively affect the growth of the medium enterprises. Higher cash holdings and retention of greater portion of the cash earned negatively affect dividend payment and that dividend payments reduces the free cash flow available to management, hence reducing the misuse of funds

ownership structure affect the growth of medium enterprises as percentage of shares held by various shareholders influence dividend payout and subsequently growth of the enterprise and that the total numbers of shares in the enterprise influence dividend payout and growth. The higher number of institutional shareholders in an enterprise ensure increased dividends and organizational finances , that inside ownership affect dividend payments as it provides direct opportunity to use internal funds on investments and that insider ownership negatively affect dividend payout hence growth of enterprises

5.4 Recommendation

There is need for the enterprises to avoid high leverage ratios which may results in high transaction costs and are in a weak position to pay higher dividends to avoid the cost of external financing which may hamper the growth of the respective enterprises and lead to payment of higher dividends to its shareholders, protect creditors and maintain internal cash flow to fulfill their day to day responsibilities.

There is need for enterprises to encourage institutions to invest in their enterprises as they are able to invest huge amount of resources at their disposal. This obligates them to discipline management when they use internal funds on unprofitable projects and may even bring about the changes when management performs inadequately. They therefore play an effective role at monitoring management and have better incentive and capabilities to collect and evaluate information pertaining to performance of their investments in relations to payment of dividends

There is need for medium enterprises to maintain liquidity up to certain level in order to provide financial flexibility and protection against uncertainty. This will also to ensure that they have greater cash flow generated from operations so as to be in a better position to pay dividends and will be in a better position to access external finance for its expansion and growth

5.5 Limitations of the Study

The data collected for this study was pure primary data. Hence there is no consideration secondary data such as documented in books, journals, academic papers and newspaper articles so as to enrich and complement primary data so as to increase the accuracy of the findings.

This lack of information constitutes as there were some respondents who were unwilling to provide full information for fear of being reprimanded by their superiors s for giving out information that they consider confidential. However the researcher assured the respondents of the confidentiality of the information that they provide and sought authority from the management to undertake research

The sample for the present study comprised of fifty three (53) respondents drawn from Nairobi County. This sample is only a very small proportion of the entire population of the target population spread around the county. Therefore, research studies with much larger sample size would be required to ensure appropriate generalization of the findings of the study

Since only self-report measures were used, common-method variance and response consistency effects may have biased the observed relationships. However, perceptions of usefulness and ease of use are not objective measures. Because perceptions are necessarily self-reported, such measures are the most effective at measuring these cognitions.

5.6 Suggestion for Further Studies

In the present study the independent variables involved effects of dividend policy while growth of medium enterprises was the independent variable. However the study did not include the moderating or intervening variables effects. There is need for future research to explore moderating effects of other variables. The present study was case study in nature and given the corresponding drawbacks of the same, studies should be conducted in future to test the proposed model so as to re-evaluate directions of causality among the study variables.

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APPENDICES

APPENDIX I: QUESTIONNAIRE

Part A: Bio Data

1. Highest level of education achieved.

    Primary [ ] Secondary [ ] College [ ] University [ ]

    Other *(specify)* …………………………………………..

2. Gender

    Male [ ] Female [ ]

3. How long has your organization been in existence?

    Below 4 years [ ] 5-10 years [ ] above 10 years

4. Has your organization paid out dividends to its shareholders?

    Yes [ ] No [ ]

5. Does your organization have dividend policy to guide in the payment of dividends

    Yes [ ] No [ ]

Part B: Growth of Medium Enterprises

6. Kindly indicate the extent to which you agree with each of the following statements as regards the growth of medium enterprises

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
	1	2	3	4	5
There has been an increase in organization sales					
There is an increase in organization market share					
The enterprise has realized improved profitability as evidenced by return on					

investment and Return on Assets					
Dividend policy has lowered firms transactional cost					
There has been an increase in the coverage of the market					

Part C: Leverage (Capital structure)

What is the Leverage ratio of your enterprises?

0.01-1.0 [ ] 1.1-10.0 [ ] 10.1-20.0 [ ] 20.1-30.0 [ ]

30.1 and above [ ]

7. Kindly indicate the extent to which you agree with each of the following statements as regards the capital structure

	No extent	Little extent	Moderate extent	Great extent	very great extent
	1	2	3	4	5
Firms with higher short term and long term liabilities pay lower dividends and inhibit the firm ability to attract external funds					
Firms with higher shareholder's funds pay higher dividends and attract additional funds and assets					
Firms with low debt ratios are willing to pay more dividends hence attract investors to the company					
Firms with relatively less debt and more					

tangible assets have greater financial capability to pay dividends and finance its operations and investments					
Firms with high leverage ratios have high transaction costs, and are in a weak position to pay higher dividends hence experience poor growth					
Highly leveraged companies pay lower dividends to protect creditors and to maintain cash flow to fulfill their financial obligations.					
Firm with higher leverage pay lower dividend to avoid higher cost of raising external capital					

7 .In your view does capital structure affect growth of medium enterprises in Kenya?

Yes [ ] No **[ ]**

Part D: Financial Liquidity

8. Indicate the category of the current ratio in which your enterprise fall
0.00-1.00 [ ], 1.1-5.00 [ ], 5.01- 10.00 [ ], 10.1-15.00 [ ],
15.1-20.00 [ ], 20.1 and above [ ]

9. Kindly indicate the extent to which you agree with each of the following statements as regards the financial liquidity

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
	1	2	3	4	5

Dividend payment is influenced by liquid current assets which ensure payment of dividends and continued financing of internal operations and market expansion					
Dividend payment is negatively influenced by liquid current liabilities which affect the growth of the enterprise					
The greater the liquidity of a company the greater its ability to pay a dividend and to access additional assets					
Dividend payments reduces the free cash flow available to management, hence reducing the chance of using it in less profitable ventures which impact negatively on enterprises					
cash generated from operations plays an important role in deciding the amount to be paid out and retained for investment					
Financially constrained firms accumulate higher cash holdings and retain greater portion of the cash earned during the period but negatively impact on resource mobilization for the firm					

10. In your considered view does financial liquidity affect the growth of medium enterprises?

Yes [ ] No **[ ]**

Part F: Ownership Structure

11. Indicate in percentage the shareholdings of the following category of shareholders

    Individual shareholders__________________________**%**

    Management Shareholders_______________________%

    Institutional Shareholders ________________________ %

12. Kindly indicate the extent to which you agree with each of the following statements as regards the ownership structure

	Strongly agree	Agree	Neutral	Disagree	Strongly Disagree
	1	2	3	4	5
The percentage of shares held by various shareholders influence dividend payout and subsequently growth of the enterprise					
The total numbers of shares in the enterprise influence dividend payout and growth					
The number of institutional shareholders ensure increased dividends and organizational finances					
Inside ownership affect dividend payments as it provides direct opportunity to use internal funds on unprofitable projects.					
There exist negative relationship between insider ownership and dividend payout hence growth of enterprises					

13. In your considered view does ownership structure affect the growth of medium enterprises?

Yes [ ] No **[ ]**