THE EFFECT OF DIVIDENDS ON FINANCIAL PERFORMANCE OF FINANCIALLY CONSTRAINED FIRMSLISTEDAT NAIROBI SECURITIES EXCHANGE

NAUM JEROP

A RESEARCH PROJECTREPORT SUMBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF DEGREE OF MASTER IN BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

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DECLARATION

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

Signed…….Date……

Mrs. NaumJerop

D61/80859/2012

This research projecthas been submitted for examination with my approval as a University Supervisor.

Signed…… Date……..

Dr.FredrickOgilo

Lecturer, University of Nairobi

Department of Finance and Accounting

DEDICATION

This research project is dedicated to my dear husband Kennedy Kemei together with my twodear children Ashley and Adriel, for standing with me and more understanding thereason of my absence when they needed me more. Their support in the course of mystudies towards this master's degree is undutiful. I cannot forget my late parents, brothers and sisters for the good academic foundation they laid on me.

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ABSTRACT

Dividend policy occupies a major role in the financial management of an organization and serves as a mechanism for control of a managerial opportunism.Several theories have been documented on the relevance and irrelevance of dividend policy on firm performance. Many authors continue to come up with different findings from their studies on the relevance of dividend policy. This research sought to determine the effect of dividends on financial performance of financially constrained firms listed at Nairobi securities exchange. This study carried out a census of the 41 non-financial companies that were listed for the entire period of the study (2009-2013). Data for the study wereextracted from annual reports and accounts of 41non-financial companies listed at Nairobi Securities Exchange. Performance of the companies was established by conducting the Z-score analysis on each of the companies. The Z-score analysis identified 9 companies has having been financially constrained at one point or another during the period of the study. Regression analysis was carried out to establish the effect of dividend payout, total assets and leverage on firm performance. The findings indicated that dividend payout, total assets and leverage were major factors affecting firm performance. 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.It is recommended that Organizations should ensure that they have a good and robust dividend policy in place because it will enhance their performance and attract investments to the organizations.

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LIST OF ABBREVIATIONS

ANOVA**:** Analysis Of Variance

IAS: International Accounting Standards

KZ: Kiplan and Zingales

ROA: Return on asset

SEO: Seasoned Equity Offering

SIC: Standard Industrial Classification System

SPSS: Statistical Package for Social Sciences

WW-: Whited-Wu

CHAPTER ONE: INTRODUCTION

1.1Background of the study

Prior literature consistently documents a positive relationship between dividend payments and firm performance; Aharony and Swary, (1980), Asquith and Mullins (1983),Kalay and Lowenstein (1985). However, Jensen (1986), found that dividends can increase leverage and reduce cash and thus corporate liquidity. Recent studies, such as Chen and Wang (2012), provide further motivation for this research. Chen and Wang (2012) show that financially constrained firms earn significantly poorer post-buyback abnormal returns and operating performance, when compared to similar unconstrained firms.Firm performance in this case can be viewed as how well a firm enhances its shareholders' wealth and the capability of a firm to generate earnings from the capital invested by shareholders.

According to Pecking order theory (Myers, 1984) constrained firms should retain internal funds to build 'financial slack' in order to smooth future investment. Dividend policy can affect the value of the firm and in turn, the wealth of shareholders (Baker et al., 2001). Dividend-increasing firms that are financially constrained prior to the increase in distribution, reductions in corporate liquidity could be significantly damaging. Diminished liquidity for these firms could lead to reduced investment in the product market and reduced competitive ability (Campello, 2003); Underinvestment could also potentially lead to constraints in technological spending and increased financial distress risk (Whited and Wu, 2006).

Kenyan market is less dynamic and less competitive and is faced with various market imperfections exist (taxes, transaction costs, information asymmetry, agency problems, etc) and these market imperfections have provided the basis for the research. The economic status of a firm (constrained or unconstrained) at normal or financial crisis period influences the dividends given to shareholders and prices of shares of the firm in Nairobi Securities exchange market. The research seeks to find out how dividends would affect the performance of financially constrained firms in Kenya.

1.1.1 Dividends

A dividend is a payment made by a corporation to its shareholders, usually as a distribution of profits. Generally, the factors that may be considered by the Board before making any recommendations for the dividend include, but are not limited to, future capital expenditure plans, profits earned during the financial year, cost of raising funds from alternate sources, cash flow position and applicable taxes including tax on dividend. Dividends are widely considered as 'sticky' (Lintner 1956) therefore financially constrained firms, therefore, approach the dividend increase decision with great caution.

Dividend policy is considered to be one of the most important financial decisions that corporate managers encounter (Baker and Powell, 1999). It has potential implications for share prices and hence returns to investors, the financing of internal growth and the equity base through retentions together with its gearing and leverage (Omran&Pointon, 2004). Frankfurtet&McGoun (2000) concluded that the dividend puzzle, both as a share value-enhancing feature and as a matter of policy is one of the most challenging topics of modern financial economics. Mizuno (2007) agrees to the fact that a firm ought to pay dividends to shareholders if it cannot identify suitable investments which would bring higher returns than those expected by the shareholders.

Miller and Modigliani theory (Stulz, 2000) proposes that in a capital market where there are no imperfections such as taxes, transaction costs, asymmetric information and agency costs, the dividend policy of a company is irrelevant for the market value of its shares. It therefore implies that financial managers cannot alter the value of their firms by changing their dividend policy. . Making dividend payouts which reduces the free cash flows available to the managers would thus ensure that managers maximize shareholders' wealth rather than using the funds for their private benefits (DeAngelo et al., 2006). The signaling theory proposes that dividend policy can be used as a device to communicate information about a firm's future prospects to investors. Bird in hand theory states that dividends are less risky than capital gains since they are more certain. Investors would therefore prefer dividends to capital gains (Amidu, 2007).

1.1.2 Financial performance

Financial performance is enhancing shareholders' wealth and profit making which are among the major objectives of a firm (Pandey, 2005). Shareholder's wealth is mainly influenced by growth in sales, improvement in profit margin, capital investment decisions and capital structure decisions (Azhagaiah&Priya, 2008). Firm performance in this case can be viewed as how well a firm enhances its shareholders' wealth and the capability of a firm to generate earnings from the capital invested by shareholders.

Firm performance can be measured by the earnings generated by the company in terms of profitability. There is substantial literature on the relationship between dividend policy and profitability. Dividends are important to shareholders and potential investors in showing the earnings that a company is generating. Healthy dividends payouts thus indicate that companies are generating real earnings rather than cooking books (Barron, 2002).

Dividend policy can affect the value of the firm and in turn, the wealth of shareholders (Baker et al., 2001). A study by Zhou &Ruland (2006) revealed that high dividend payout firms tend to experience strong future earnings but relatively low past earnings growth despite market observers having a contradicting view. The findings of another study done by Arnott&Asness (2003) also revealed that future earnings growth is associated with high rather than low dividend payout.

1.1.3 Relationship between dividends and financial performance offinancially constrained firms

Imperfect capital markets, M&M asserted that the performance of a firm is independent of its dividend policy.The literature on dividend policy has produced a large body of theoretical and empirical research, especially following the publication of the dividend irrelevance hypothesis of M&M (1961). No general consensus has yet emerged after several decades of investigation, and scholars can often disagree even about the same empirical evidence.

John and Williams (1985) argues that firms increase dividends when they need to raise additional equity funds, where the dividend acts as a signal of its future prospects.

Financially constrained firms typically experience higher costs of external financing due to greater levels of information asymmetry, incomplete contractibility and agency issues. These firms are concerned with improving their capacity to raise external funds in the future; as a result, they utilize dividends to increase firm capacity for external financing. In presence of market imperfection such as presence of asymmetry between the firm and the market, financially constrained firms sometimes elect to pay higher dividends.

Dividend policy is therefore, considered to be one of the most important financial decisions that corporate managers encounter (Baker and Powell, 1999). It has potential implications for share prices and hence returns to investors, the financing of internal growth and the equity base through retentions together with its gearing and leverage (Omran&Pointon, 2004). Frankfurtet&McGoun (2000) concluded that the dividend puzzle, both as a share value-enhancing feature and as a matter of policy is one of the most challenging topics of modern financial economics. Mizuno (2007) agrees to the fact that a firm ought to pay dividends to shareholders if it cannot identify suitable investments which would bring higher returns than those expected by the shareholders.

An empirical investigation of the U.S. market over the 1990 – 2011 (Nicholas 2012) sample period suggest that dividend-increase declaration has a significantly positive effect on the market reaction to SEO announcements for financially constrained firms. This is especially the case for constrained firms that are in more competitive industries. Constrained firms that increase dividends are also subjected to greater financial distress risk than unconstrained firms. Financially constrained firms time their dividend increase announcements to precede SEO announcements so as to relieve the external financing costs of underpricing typically associated

1.1.4 Nairobi Securities exchange

The Nairobi Securities Exchange (NSE) has a long history that can be traced to the 1920`s when it started trading in shares when Kenya was still a British colony (IFC/CBK, 1984). Shares traded was initially conducted in an informal market ,there was a growing desire to have a formal market that would facilitate access to long term capital by private enterprise and would also allow commencement of flotation of local registered government bonds.

There are a total of 60 listed companies which are grouped into Agricultural, commercial, Telecommunication, Automobile, banking sector, Insurance, Investment, Manufacturing, Construction and Energy sector (NSE, 2014).The Nairobi Securities Exchange (NSE) is open for trading from Monday to Friday, and closed on Saturday and during public holidays (Mokua, 2003).Most stock exchange in the world also trade from Monday to Friday (Jaffe and Westerfied, 1985).

The Nairobi Securities Exchange has three types of indices; these are NSE 20 share Index, NSE All Share Index (NASI) and FTSE Share Index. NSE 20 share Index comprises 20 selected companies. In 2008, the NSE All Share Index (NASI) was introduced as an alternative index. It is a measure of overall indicator of market performance. The Index incorporates all the traded shares of the day. Its attention is therefore on the overall market capitalization rather than the price movements of selected companies.

The requirements of companies that want to be listed in the Nairobi Securities Exchange must fulfill, is that they should have a clear future dividend policy. NSE is a developing market faced by the financial constrains therefore looking at the concept of dividends policy and how it affects the firms performance is very important. In Kenya dividends are taxed at 5% as a final tax for individuals while capital gains tax are tax exempt (Income Tax Act, 2010). Firms that meet the needs of individual investors are more likely to be able to command a higher share price premium and thus an enhanced firm value. However, Amidu (2007) argues that, if investors migrate to firms that pay the dividends that most closely match their needs, no firm's value should be affected by its dividend policy.

1.2Research problem

Financial constraints can be referred to as frictions like; agency costs (caused by information asymmetries), difficulties of getting loan, dependence of loans etc. that results in an arising wedge between internal and external cost of funds. These frictions or costs of available funds can prevent the firm from funding all the desired investment opportunities that it would have invested in, had they had the funds needed. Financially constrained firms are firms that face higher costs for attracting external financing and are

typically associated with higher levels of information asymmetry between investors and firm management (Chen and Wang, 2012). They tend to be smaller, private speculative grade, less profitable, less likely to pay dividends and with slightly lower growth prospects than firms that are unconstrained.

Dmitry and Horacio (2006) viewed financially constrained firms as riskier and earn higher expected returns than less financially constrained firms, although this effect can be subsumed by size and book-to-market. Further, because the stochastic discount factor makes capital investment more procyclical, financial constraints are more binding in economic booms. These insights arise from two perspectives where firms face dividend non negativity constraints without any access to external funds and where firms can retain earnings, raise debt and equity, but face collateral constraints on debt capacity.

Miller and Modigliani theory (Stulz, 2000) proposes that in a capital market where there are no imperfections such as taxes, transaction costs, asymmetric information and agency costs, the dividend policy of a company is irrelevant for the market value of its shares which therefore implies that financial managers cannot alter the value of their firms by changing their dividend policy. The signaling theory proposes that dividend policy can be used as a device to communicate information about a firm's future prospects to investors. Cash dividend announcements convey valuable information, which shareholders do not have, about management's assessment of a firm's future profitability thus reducing information asymmetry.

The companies listed at NSE like many other emerging markets experience financial constraints and struggle to raise capital for funding their investments. The Nairobi Securities Exchange is an important avenue for attracting foreign investments and to encourage local residents to invest in shares, Kenyan companies may engage in voluntary disclosures as a means to enhance the value of their stocks hence investor confidence (Barako,2007).

Numerous studies (Murekefu and Ouma (2012, Arnott&Asness 2003; Farsioetal 2004) suggested a positive relationship between current dividend payout and future earnings

growth. Low dividend resulting in low growth may be as a result of suboptimal investment and less than ideal projects by managers with excess free cash flows at their disposal. Therefore, paying dividends to reduce the free cash flows enhances the performance of a company since managers will have less cashflows thus avoiding suboptimal investments. This is also consistent with the agency cost theory.

The positive relationship is also driven by sticky dividends combined with mean reversion in more volatile earnings (Arnott&Asness, 2003). The temporary increases and decreases in earnings subsequently reversed cause the payout ratio to be positively correlated with future earnings growth. However, Farsio et al. (2004) argue that no significant relationship between dividends and earnings hold in the long run and studies that support this relationship are based on short periods and therefore misleading to investors. Fazzari, Hubbard, and Petersen (1988) view firms as constrained when external financing is too expensive. In that case, firms must use internal funds to finance their investments rather than to pay out dividends.

The Kenyan government has made several reforms aimed at attracting foreign investment via the Nairobi Securities Exchange. A number of studies (Murekefu and Ouma (2012), Kibet (2012), Arnott&Asness 2003; Farsio et al 2004) have been done with regard to dividend policy and firm performance, especially in developed economies. Therefore, there are many factors affecting the performance of corporate organizations and one of those factors is dividend policy. Empirical studies show that firms in developing Countries (e.g. Kenya) smooth on their income and therefore, their dividends. The pattern of corporate dividend policies not only varies over time but also across countries, especially between developed, developing and emerging Capital markets. If the performance of a company is the function of its dividend payments, dividend policy will affect directly the firm's cost of capital. But is there any significant relationship between dividend policy and corporate performance in form of profitability?

1.3 Research objective

Todetermine the effect of dividends onfinancial performance of financially constrained firms listed at Nairobi securities exchange.

1.4Value of the study

Examining the dividend policy patterns of constrained firms will provide an interesting perspective to this dividend puzzle. Analyzing a setting in which dividend-increases are not expected to significantly enhance shareholder wealth, provides a fascinating insight for the body of research devoted to explaining why firms pay dividends. At policy level, the finding from this study helpspolicy makers to adopt dividend policy which would enhance performance of financially constrained firms.

This study also adds value to existing literature as it will examine and document the anomalous incidence of dividends for financially-constrained firms and how these practices affect their performance both in short term and long term. Since increasing dividend distributions potentially harms shareholder wealth, the study examined if this effect is spread both in short term and in the long run. This helped to explain why managers of financially constrained firms would increase dividends.

In practice, the ultimate goal of every firm is to make progress; the study result on performance of financially constrained helped us in approval and/or disapproval of this dividend policy of financially constrained firms to obtain maximum firms performance. Thefinding of the study is useful to owners, shareholders and government policy makers. The firm and shareholders are able to make appropriate choices for sustainable growth and profitability.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter critically examined the available literature and studies that have been previously carried out and are relevant to this research. This created a better understanding of the issues discussed. The chapter is divided into four sections. The first section discusses the key theoretical considerations from previous studies to inform the general objective developed for this study, that is to determine the effect of dividends on financial performance of financially constrained firms listed at Nairobi securities exchange; The second section gives a brief description of the research methodologies used by previous studies in attaining their objectives, the third section gives a discussion on the determinants of financial performance and lastly a brief summary of the entire literature review.

2.2 Theoretical review

Major theories have been put in place to explain the rationale and major arguments relating to payment of dividends by firms and how this affects their performances. They view dividends as either relevant or irrelevant in making financial decisions. This includes Dividend Irrelevance Theories, the Bird-in-the-Hand Theory, The residual theory, The Tax-Preference Theory, The signaling theory and Pecking order theory.

2.2.1 Dividend Irrelevance Theories

Modigliani and Miller (1961) rattled the world of corporate finance with the publication of their paper: Dividend Policy, Growth, and the Valuation of Shares in the Journal of Business. They proposed an entirely new view to the essence of dividends in determining the future value of the firm. As such, they argued that subject to several assumptions, investors should be indifferent on whether firms pay dividends or not. The 1961 paper was a sequel to the 1958 paper in which they argued that the capital structure of a firm is irrelevant as a determinant factor for its future prospects.The M&M theorem holds that capital gains and dividends are equivalent as returns in the eyes of the investor. The value of the firm is therefore dependent on the firm's earnings which result from its investment policy and the lucrativeness of its industry. When a firm's investment policy is known

(its industry is public information), investors will need only this information to make an investment decision.

The theory further explains that investors can indeed create their own cash inflows from their stocks according to their cash needs regardless of whether the stocks they own pay dividends or not. If an investor in a dividend paying stock doesn't have a current use of the money availed by a particular stock's dividend, he will simply reinvest it in the stock. Likewise, if an investor in a non-dividend paying stock needs more money than availed by the dividend, he will simply sell part of his stock to meet his present cash need.

DeAngelo (2006) highlight that Miller and Modigliani's (1961) proof of dividend irrelevance is based on the assumption that the amount of dividends distributed to shareholders is equal or greater than the free cash flow generated by the fixed investment policy. They claim that, if retention is allowed, dividend policy is not irrelevant. Their paper showed that the dividend irrelevance proposition holds even in case of retention. The key assumption has not to do with retention but with the NPV of the extra funds (either retained or raised): if NPV is zero, dividend irrelevance applies. Retention or no-retention is useful, because if agency problems are present, managers tend to retain funds and invest them in negative-NPV projects, and therefore the zero-

2.2.2 The Bird-in-the-Hand Theory

The bird-in-the-hand theory, hypothesized independently by Gordon (1963) and by Lintner (1962) states that dividends are relevant to determining of the value of the firm. In a popular common stock valuation model developed by Gordon, The determinants of the value of a firm's cost of equity financing are the dividends the firm is expected to pay to perpetuity, the expected annual growth rate of dividends and the firm's current stock price.

One reason given for the view that investors prefer dividends to capital gains is that dividends are certain, whereas capital gains are uncertain. Proponents of this view of dividend policy feel that risk-averse investors will therefore prefer the former. This argument is flawed. The simplest response is to point out that the choice is not between certain dividends today and uncertain capital gains at some unspecified point in the future

but between dividends today and an almost equivalent amount in price appreciation today. This comparison follows from our earlier discussion, where we noted that the stock price dropped by slightly less than the dividend on the ex-dividend day. By paying the dividend, the firm causes its stock price to drop today.

Bird-in-the-hand theory was criticized by Modigliani and Miller (1961) who claimed that dividend policy does not affect the firm's cost of capital and that investors are totally indifferent if they receive more dividend or capital gains. They called Gordon and Lintner's theory a bird-in-the-hand fallacy indicating that most investors will reinvest the dividend in the similar or even the same company and that company's riskiness is only affected by its cash-flows from operating assets.

2.2.3 The Residual Theory

The residual theory holds that dividends paid by firms are residual, after the firm has retained cash for all available and desirable positive NPV projects. The gist of this theory is that dividend payment is useless as a proxy in determining the future market value of the firm. As such, the firm should never forego desirable investment projects to pay dividends. Investors who subscribe to this theory therefore do not care whether firms pay dividends or not, what they are concerned with is the prospect of higher future cashflows which might lead to capital appreciation of their stocks and higher dividends payouts.

The residual theory has been criticized as having no empirical support, but it’s just an illustration of logic which is all too obvious for corporate decision makers. Firms tend to meet the financing needs of their growth strategies before paying anything out to shareholders and hence a theory stating so would simply be stating the obvious.

2.2.4 The Tax-Preference Theory

The M&M assumption of a perfect capital market excludes any possible tax effect. It has been assumed by Modigliani and Miller that there is no difference in tax treatment between dividends and capital gains. However, in the real world taxes exist and may have significant influence on dividend policy and the value of the firm. In general, there is often a differential in tax treatment between dividends and capital gains, and, because

most investors are interested in after-tax return, the influence of taxes might affect their demand for dividends.

The tax-preference hypothesis suggests that low dividend payout ratios lower the cost of capital and increase the stock price. By extension, low dividend payout ratios contribute to maximizing the firm's value. This argument is based on the assumption that dividends are taxed at higher rates than capital gains. In addition, dividends are taxed immediately, while taxes on capital gains are deferred until the stock is actually sold. These tax advantages of capital gains over dividends tend to predispose investors, who have favorable tax treatment on capital gains, to prefer companies that retain most of their earnings rather than pay them out as dividends, and are willing to pay a premium for low-payout companies.

Miller and Scholes (1982) challenged the Tax hypotheses theory by suggesting that in short term dividend yields are inappropriate for detecting the impact of differential tax treatment of dividends and capital gains on stock returns. Furthermore, Miller and Scholes (1982) argued that the positive yield-return relation is caused by information bias. The reason for this argument is that the theory ignored the information effect of dividend omissions. An announcement of dividend omissions (perceived as bad news) may result in an upward bias in the dividend yield.

2.2.5The Signaling Theory

The signaling theory proposes that dividend policy can be used as a device to communicate information about a firm's future prospects to investors. Cash dividend announcements convey valuable information, which shareholders do not have, about management's assessment of a firm's future profitability thus reducing information asymmetry. Investors may therefore use this information in assessing a firm's share price. Dividend policy under this model is therefore relevant (Al-Kuwari, 2009).

Mwandenga (2005) criticized the signaling theory noting conflicting policy implications among financial economists so much that there is no practical dividend policy guidance to management, existing and potential investors in shareholding. Since corporate

investment, financing and distribution decisions are a continuous function of management, the dividend decisions seem to rely on intuitive evaluation.

2.2.6 Pecking order theory

According to the pecking order theory, formalized by Myers and Majluf (1984) firms seeking to finance new investments prefer to use funds according to a hierarchy: first internal funds, then debt issuance, and finally equity issuance. This pecking orderî arises because managers, not wanting to dilute existing shareholders claim, will issue only overvalued securities. Aware of this, market participants discount firm value to reflect adverse selection costs. Myers and Majluf (1984) show that because adverse selection costs are always larger for equity issues than for debt issues, issuing equity is never optimal.

The Trade-off theory of capital structure challenges the pecking order theory with the idea that a company chooses how much debt finance and how much equity finance to use by balancing the costs and benefits. There are various corporate finance choices that a corporation experiences and most corporations are usually financed partly with debt and partly with equity.

2.3 Determinants of Financial Performance of financially constrained firms

Firm performance can be measured by the earnings generated by the company in terms of profitability. There is substantial literature on the relationship between dividend policy and profitability. Dividends are important to shareholders and potential investors in showing the earnings that a company is generating. Healthy dividends payouts thus indicate that companies are generating real earnings rather than cooking books (Barron, 2002). A study by Zhou &Ruland (2006) revealed that high dividend payout firms tend to experience strong future earnings but relatively low past earnings growth despite market observers having a contradicting view.

Analysis of the determinants of corporate financial performance is essential for all the stakeholders, but especially for investors. The value of shareholders, defined as market value of a company is dependent on several factors: the current profitability of the company, its risks, and its economic growth essential for future company earnings. All of

these are major factors influencing the market value of a company. Other studies (Peasnell, 1996) argue the opposite, that financial indicators based on accounting information are sufficient in order to determine the value for shareholders. A company's financial performance is directly influenced by its market position.

Risk and growth are two other important factors influencing a firm's financial performance. Since market value is conditioned by the company's results, the level of risk exposure can cause changes in its market value5. Economic growth is another component that helps to achieve a better position on the financial markets, because market value also takes into consideration expected future profits.

2.3.1 Signs of financial constrains by firm

There are a number of early warning signs that indicate that a company is experiencing problems from its financial statements. Being aware of these signals can help prevent losses due to a bankruptcy. If a company is in trouble, odds are good you'll see red flags in its financial statements and changes in its operations and management activities. The first places to look for trouble signs are the company's cash flow statements. When cash payments exceed cash income, the company's cash flow is negative. If cash flow stays negative over a sustained period, it's a signal that cash in the bank could be running low, so also keep an eye on changes in the company's cash position on its balance sheet. Without new capital from equity investors or lenders, a company in this situation can quickly find itself in serious financial trouble.

Long delays between the time when the company spends cash to grow its business and when it collects cash receivables from resulting sales can severely stretch cash flow. Working capital may also decline and become negative, as accounts payable grow at a faster rate than inventory and accounts receivable. In any case, negative operating cash flows, period after period, should be interpreted as a warning that the company could be headed for trouble. Interest repayments can put pressure on cash flow, and this pressure is likely to be exacerbated for distressed companies. Because they have a higher risk of defaulting on their loans, struggling companies must pay a higher interest rate to borrow money. As a result, debt tends to shrink returns. The debt-to-equity ratio is a handy

metric for gauging a company's debt default risk. It compares a company's combined long- and short-term debt to shareholders' equity or book value. High-debt companies have higher D/E ratios than companies with low debt.

2.4Empirical Review

Aharony and Swary (1980) considered the synchronous nature of earnings and dividends announcements in examination of the information content of dividend hypothesis. They concluded that their results support the information content of dividends hypothesis—that announcements of changes in dividends provide information beyond that contained in quarterly earnings announcements.

Almeida et al. (2003) tested a sample of 3547 publicly- traded manufacturing companies in the period between 1971 and 2000. He used the link between financial constraints and a company's demand for liquidity in order to develop an analysis of the impact of financial constraints on firm policies. Their main finding confirms this hypothesis; firms that are more likely to be financially constrained, exhibit a significantly positive cash flow sensitivity of cash, while the unconstrained companies do not.

Amidu (2007) found that dividend policy affects firm performance especially the profitability measured by the return on assets. The results showed a positive and significant relationship between return on assets, return on equity, growth insales and dividend policy. This showed that when a firm has a policy to pay dividends, its profitability is influenced. The results also showed a statistically significant relationship between profitability and dividend payout ratio.

Arnott&Asness (2003) suggested that the positive relationship between current dividend payout and future earnings growth is based on the free cash flow theory. Low dividend resulting in low growth may be as a result of suboptimal investment and less than ideal projects by managers with excess free cash flows at their disposal.

Asquith and Mullins (1983) in their study to investigate the impact of dividends on stockholders' wealth by analyzing 168 firms that either pay the first dividend in their corporate history or initiate dividends after a 10-year hiatus. The empirical results exhibit

larger positive excess returns than any previous study on dividends. This result does not depend on any other events (such as earnings announcements) and the excess return is positively related to the size of the initial payment.

Chay & Suh (2008) investigation shows that, in the majority of countries, the investments of financially constrained firms are not highly sensitive to internal funds, which confirms the results of prior U.S. studies. Moreover, in many countries, financially constrained firms use substantial amounts of external funds, and their investments tend to be more sensitive to external financing than to internal financing. This is contrary to the standard view in financial constraint literature that financially constrained firms face restricted access to external financing (Chay&Suh, 2008).

Chen and Wang (2012) examined how the financial constraints of repurchasing firms affect their post-buyback performance. By every constraint measure they used, a set of constrained firms repurchase. They displayed significantly poorer post-buyback abnormal return and operating performance than unconstrained firms. They found out that constrained firms, especially those with high actual repurchase ratios, experience a significantly greater increase in post-buyback distress risk than unconstrained firms.

Fabio (1995) in the paper "Financial constraints and investment'' investigates the methodological issues involved in testing for financial constraints on the basis of Q models of investments. He finds that the essential problem in using Q models in this matter is that average Q may be a very inaccurate alternative for the shadow value of an additional unit of new capital. He suggests addressing this problem by estimating the Euler equation for the capital stock derived from the underlying model. The benefit of the Euler equation approach is that it avoids relying on measures of profitability based on a firm's market value.

Farsio et al. (2004) argue that no significant relationship between dividends and earnings hold in the long run and studies that support this relationship are based on short periods and therefore misleading to investors. They concluded that increase in dividends may be the result of good performance in previous periods which may continue into the future.

Hubbard and Petersen (1988) examined that in order to group companies as financial constrained or not financial constrained then there is need for grouping. They categorized US companies according to their payout behavior. Their results showed that financial factors affect investments, and that the link between financing constraints and investment varies by the type of firm. Their results suggest that investment decisions of firms grouped as being more financially constrained are more sensitive to the availability of internal cash flows, relative to those grouped as being less constrained.

Kalay and Loewenstein (1985) paper on Predictable events and excess returns hypothesizes that the risk per unit of time and the required rate of return are higher than normal during an event period whose timing can be predicted. Consistent with this hypothesis this paper presented empirical evidence indicating that the unconditional mean rate of return, the variance of stock returns and their systematic risk are higher than 'usual' during dividend announcement periods.

Kibet (2012) undertook a study to establish the effect of dividend policy on financial performance of companies quoted at Nairobi Securities Exchange used regression analysis to analyze the data and find out the effect of dividend policy on financial performance. His study found out that there is a significant positive relationship between dividend per share and returns on equity and dividend pay-out ratio also indicated a positive relationship with returns on equity on overall performance while the results on individual companies did not give the same response as some had inverse relationship depending on the industry under review. The study concludes by indicating that there is a significant relationship between dividend pay-out ratio and dividend per share with the returns on equity.

Murekefu and Ouma (2012) sought to establish 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.

Waithaka (2012) so to establish determination of dividends payable as an important decision that companies undertake since the objective of the firm is to maximize the shareholders' wealth as measured by the price of the company's common stock. The study concluded that higher pre-tax risk adjusted returns associated with higher dividend yield stocks to compensate investors for the tax disadvantages of returns affected tax incentives and that investors whose portfolios had low systematic risk preferred high-pay-out stocks. The study also found out that an increase in firms' stocks trading volume affected the share price and investors who wanted current investment income owned shares in high dividend payout firms

Whited Wu (1992) contributes with another important paper in the context of financial constraints (liquidity constraints). She investigates the investment behavior of firms when they maximize their value subject to borrowing constraints. Findings point towards that difficulties in achieving debt finance, do have an impact on investment behavior. Furthermore, the effect of financial constraints tends to be more binding for firms that do not participate in the bond market.

2.5 Summary of Literature Review

This chapter reviewed various empirical evidences that provided explanations to the performance of the financially constrained firms after dividend increase.

Murekefu and Ouma (2012) in their studies established a strong and positive relationship that dividend payout was a major factor affecting firm performance. This was advocated by Aharony and Swary (1980) who also established a positive relationship between dividend payoutand returns on equity,. They also added that firms should rather declare constant dividend paid to shareholders rather than giving a decrease on the paid dividends since this will negatively affect dividend pay-out rate for customers. Management of various companies should ensure that dividend per share declared is positive for the future earnings of their firms.

However Farsio et al. (2004) argue that no significant relationship between dividends and earnings hold in the long run and studies that support this relationship are based on short

periods and therefore misleading to investors. It can be concluded, based on the empirical findings that dividend policy to some extent though not wholly is relevant and that managers should devote adequate time in designing a dividend policy that will enhance firm performance and therefore shareholder value.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter described the research design, population, sample and sampling techniques, data collection procedure, how data was manipulated to realize the set objectives. This study was based on one major objective to determine the effect of dividends on financial performance of financially constrained firms listed at Nairobi securities exchange

3.2 Research design

This was a descriptive study as it established the causal relationship between variables. It emphasized on studying a situation or a problem in order to explain the relationship between the variables (Saunder, Lewis and Adrian, 2009).This research design was adopted as the research sought to determine effect of one variable on the other i.e the effect of dividends on firm's performance whether there is a positive or negative relationship.

3.3 Target Population

The population of the study comprised of firms listed at NSE. The target population of the study consisted of 41 non-financial public firms listed in the NSE as shown in appendix I. Only non-financial firms were considered as Altman Model (2000) does not recommend the use of the Altman Z-score model in the analysis of financial firms' financial distress because of financial firms' frequent disclosure of off–balance sheet items. Financial institutions often offer asset management or brokerage services to their clients. Due to this, they may have significant amounts of off-balance sheet assets and liabilities thus it would have been erroneous to make conclusions on the assumption that all assets and liabilities reported in the financial companies financial statements belong to the company.

3.4 Sampling framework

A census was done where all the firms in the target population were selected for analysis. This procedure was preferred to sampling as the small size of the population made it

possible to study all the firms in the population and at the same time a census solves the accuracy problems associated with sampling. Firms that fell on “Distress” Zone Z < 1.1 were selected for analysis.

3.5 Financially constrained firm Predictive Model

This study adopted the Altman's 1968 model to identify the financially constrained:

$$Z = 1.2A + 1.4B + 3.3C + 0.6D + .999E$$

$Z < 2.675$; then the firm is classified as "failed"

Where A = Working Capital/Total Assets

B = Retained Earnings/Total Assets

C = Earnings before Interest and Taxes/Total Assets

D = Market Value of Equity/Book Value of Total Debt

E = Sales/Total Assets

The critical categories used by Altman to predict financial distress, based on Z score model, are as follows:

$Z > 2.6$;The company is in a non-bankruptcy zone, it is financially healthy.

Z= 1.1 to 2.6; The company should be on alert and exercise caution on fiscal health.

$Z < 1.1$; The company is in financial distress, probability of bankruptcy is very high.

3.6 Data collection

Secondary data was obtained from the firm’s annual reports most of which are publicly available. The data collected mainly comprised the financial information from the

financial statements. This included dividends paid, total assets and the firs leverage. This was for a five year period, that is, from the year 2009 to 2013.

3.6.1 Data Analysis

Data collected was analyzed using SPSS. Following Grullon and Michaely, (2002), A regression analysis was then conducted as it allowed modeling and analyzing several variables.

3.6.2 Data Operationalization

The following regression model was used to determine the effect of dividend on financially constrained firms Performance

$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$

Where: Y= Company's financial performance measured by Net profit after tax

X_1=Actual dividends paid

X_2= Firms Total assets

X_3= Financial leverage of firm

α =The constant term

β_1 = coefficient of actual dividends paid

β_1 = coefficient of total assets

β_1 = coefficient of leverage of the firm.

ε= Error term

The operationalization of the variables was based on the understanding of the regression model above. The variables were standardized in such a way that dividends measured using the dividends payout ratio. Total assets measured by the Returns on assets ratio, the higher the ratio the better the firm's profits and Firms leverage measured by debt payout ratio. The company's performance was measured by the net profit after tax which indicated profitability.

3.6.3 Test of significance

In order to analyze the significance of the relationship correlation analysiswas carried out. Dividends paid, total assets and firm leverage were the independent variables while

the net profit margin was the dependent variable. The analysis begun with the computation of the correlation coefficients between the variables under study. The correlation coefficients were calculated for the 5-year aggregate cross-sectional data.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presented the research findings. It discussed the profiles of the financially constrained firms, the dividends, total assets, leverage of the firms and finally the effect of the same on the financial performance. The data obtained was analyzed using SPSS and the results presented in tables.

4.2 Financial Constrained Firms

From the 41 firms, 9 firms (22%) were found to be financially constrained and they were Kapchorua Tea Company, Kenya Orchards, Express Kenya,TPSSerena,Britam,Liberty Kenya Holdings, Pan Africa Insurance Company,Transcentury Limited and Olympia Capital Ltd.The details for their Z-Score are as shown below:

4.2.1: Z-Score results of financially constrained firms.

	COMPANY	YEARS				
		2009	2010	2011	2012	2013
Z-SCORE	Kapchorua Tea Company	0.84	1.01	1.07	0.91	1.31
	Kenya Orchards	0.71	1.04	1.37	0.96	1.07
	Express Kenya	0.50	0.36	(1.10)	1.09	0.70
	TPS Serena	1.02	0.81	0.90	1.16	1.24
	Britam	-	-	0.98	1.07	1.08
	Liberty Kenya Holdings	-	-	1.06	1.06	1.05
	Pan Africa Insurance Company	0.98	1.08	1.18	1.08	1.03
	Transcentury Limited	1.01	0.98	1.06	1.05	1.09
	Olympia Capital Ltd	0.95	1	1.2	1.05	1.07

Kapchorua firm had a Z-score of less than 1.1 except for the year 2013 which had a Z-score of 1.31 which falls in the grey zone in the Altman's model therefore generally the firm is distressed. For Kenya Orchards, the first two years that is 2009 and 2010, the Z-score was less than 1.1 while 2011 the firm had a Z-score of 1.37 which falls in the grey zone of the Altman's model, lastly the last two years 2012 and 2013 the Z-score was

again less than 1.1 thus distressed. Express Kenya was distressed proper throughout the analysis period since all the Z-score values were less than 1.1.

The first three years for TPS Serena the Z-score values were less than 1.1 and improved in the last two years of study with values of 1.16 and 1.24 though still in the grey zone.The first two years for Britam, had no data from the Nairobi Securities exchange since the firm had not been listed and the last three years of study the firm was distressed proper with Z-score values of less than 1.1. Liberty Kenya Holdings, for the first two years of study, the firm had no data from the Nairobi Securities exchange since the firm had not been listed and the last three years of study the firm was distressed proper with Z-score values of less than 1.1. Pan Africa Insurance Company, the first two years that is 2009 and 2010, the Z-score was less than 1.1 whilst 2011 the firm had a Z-score of 1.18 which falls in the grey zone of the Altman's model, lastly the last two years 2012 and 2013 the Z-score was again less than 1.1.Summarily, the firm is distressed.

For the five years of study Transcentury Ltd was distressed proper with all Z-score values being less than 1.1. Olympia Capital Ltd, the first two years that is 2009 and 2010 for Olympia Capital Ltd had the Z-score less than 1.1 whilst 2011 the firm had a Z-score of 1.2 which falls in the grey zone of the Altman's model, lastly the last two years 2012 and 2013 the Z-score was again less than 1.1.Generally, the firm is distressed.

4.3 Dividends Paid and Net Profit after Tax

Dividends paid by the distressed firms varied from firm to firm, the table below shows a summary of the Dividends paid for the nine firms and the ratio of the Dividends to the Net profit after tax.

4.3.1 Ratio of Dividends Paid and Net Profit after Tax

Name of firm	Dividends Paid (kes in '00,000')	Average net profit after tax (kes in '00,000')	Ratio Dividends Paid/average NPAT
Kapchorua tea	9.782	1.180	8.29
Kenya orchards	0.550	2.116	0.26
Express kenya	0.110	(2.289)	(0.05)
Tpsserena	1.897	5.350	0.35
Britam	4.098	10.720	0.38
Liberty Kenya holdings	4.809	9.916	0.48
Panafrica insurance company	3.456	6.044	0.57
TranscenturyLtd	3.542	5.372	0.66
Olympia Capital	0.004	0.110	0.04

Express Kenya paid dividends from a loss making standpoint implying that they paid dividends to signal good financial health to attract investors but the firm was financially constrained.Kapchorua Tea paid Dividends eight times more than their cash reserves for the same reason. The rest of the firms paid dividends from a fraction of their profits although they were financial constrained.

4.4 Total Assets and Net Profit after Tax

Depending on a firm's capital structure, the Total Assets vary from firm to firm, and the table below shows the average total assets of the firms, the average net profit after tax and the ratio of the average total assets and the average net profit after tax.

4.4.1 Ratio of Total Assets and Average Net profit After Tax

Name of firm	Total Assets (kes in'00,000')	Average net profit after tax (kes in '00,000')	Ratio Total Assets/average NPAT
Kapchorua tea	16.552	1.180	14.027
Kenya orchards	22.600	2.116	10.681
Express kenya	8.777	(2.289)	3.834
Tpsserena	123.450	5.350	23.075
Britam	113.038	10.720	10.545
Liberty Kenya holdings	277.120	9.916	27.947
Panafrica insurance company	134.994	6.044	22.335
TranscenturyLtd	176.174	5.372	31.795
Olympia Capital	13.230	0.110	120.271

All the firms have a ratio of above 1 for the Total Assets against the Net Profit After Tax thus showing the Total Assets of the firms have a profound effect on the profitability.

4.5 Leverage and Net Profit after Tax

The average Leverage of the firms was calculated and also the average Net Profit after tax. Thereafter the ratio of the Average Leverage and the Net Profit after tax was obtained and tabulated below.

4.5.1 Ratio of Leverage and Net Profit after tax

Name of firm	Average leverage (kes in '00,000')	Average net profit after tax (kes in '00,000')	Ratio Average leverage/average NPAT
Kapchorua tea	0.384	1.180	0.325
Kenya orchards	1.692	2.116	0.800
Express kenya	2.310	(2.289)	(1.009)
Tpsserena	1.012	5.350	0.189
Britam	1.881	10.720	0.175
Liberty Kenya holdings	4.691	9.916	0.473
Panafrica insurance company	5.159	6.044	0.854
TranscenturyLtd	1.790	5.372	0.333
Olympia Capital	0.722	0.110	6.564

Except Olympia Capital which has a ratio of 6.564 the rest of the distressed firms have a leverage ratio of less than one implying that the effect of the Leverage on firms profitability is minimal.

4.6 Effects of Dividends on Financial Performance

The effect of dividends on the financial performance of distressed firms was the general objective of the study. Firms pay out dividends for various reasons intended by the management, mostly to attract potential investors and give the shareholders' value for their investment. Prior to regression analysis, data for the nine distressed firms from the financial statements was grouped thus; Net Profit after Tax for each firm, Dividends Paid by each firm,Total Firm Assets and the Leverage for each firm.This was done to aid in performance of pooled regression.A linear regression analysis was then performed with the following specifications:

Net Profit After Tax = $\alpha+ß_1$(Dividends Paid) + $ß_2$(Total Assets) + $ß_3$(Financial Leverage)

This model suggests the following relationship: the financial performance of the distressed firms of the no-financial firms listed at the Nairobi Securities Exchange is described by three main factors: dividends paid, total assets (firm's returns on assets) and the financial leverage.These three factors have been operationalized through the available data from the financial statements.The dependent variable of interest in this study, net profit after tax, is best operationalized by the dividends paid, which is why it is the dependent variable in the analysis. The output of the regression analysis is as follows:

4.6.1 Model Summary for Linear Regressions

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.228[a]	.052	-.025	9.4183681

Predictors: (Constant), Leverage, Dividends, Total assets.

The R-square value can be interpreted to mean that 5.2% of the variability in financial performance can be explained by the relationship between net profit after tax and dividends paid, firms returns on assets, and the financial leverage. Overall, this means

that our variables do not explain very much of the variability financial performance, given that 94.8% of the variability is unaccounted for. In other words, the variable financial performance is like better explained by the combination of different unobserved variables. However, further analysis will show us which variables are statistically significant with respect to the dependent variable.

4.6.2 Coefficients for Linear Regressions

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.582	2.765		.211	.834
DIVIDENDS	.364	.465	.126	.782	.439
TOTAL ASSETS	.007	.019	.070	.375	.710
LEVERAGE	.873	1.055	.155	.828	.413

Dependent Variable: Net Profit after Tax

The regression equation can be modeled by the following:

Net Profit after Tax = 0.582 + 0.364(Dividends Paid) +0.007(Total Assets) + 0.873(leverage)

The beta coefficient that describes the relationship between actual dividends paid and the financial performance (net profit after tax) suggests that there is a positive relationship. The beta coefficient of 0.364 can be interpreted to mean that, for every one unit increase in the dividends paid, the net profit after tax increases by 0.364 and suggests that, for the financial distressed firms there is a positive relationship between the dividends paid and the financial performance.

The beta coefficient that describes the relationship between total assets and the financial performance suggests there a positive relationship of 0.007 meaning that for every one unit increase in the total assets the net profit after tax increases by a factor of 0.007.The

beta coefficient for the financial leverage suggests a positive relationship of 0.873 meaning that for every unit increase in the financial leverage the net profit after tax increases by a margin of 0.873.

4.6.3 Tests of correlation

		NET PROFIT AFTER TAX	DIVIDENDS	TOTAL ASSETS	LEVERAGE
NET PROFIT AFTER TAX	Pearson Correlation	1	.112	.147	.179
	Sig. (2-tailed)		.487	.359	.263
	N	41	41	41	41
DIVIDENDS	Pearson Correlation	.112	1	-.010	-.087
	Sig. (2-tailed)	.487		.952	.588
	N	41	41	41	41
TOTAL ASSETS	Pearson Correlation	.147	-.010	1	.508
	Sig. (2-tailed)	.359	.952		.001
	N	41	41	41	41
LEVERAGE	Pearson Correlation	.179	-.087	.508	1
	Sig. (2-tailed)	.263	.588	.001	
	N	41	41	41	41

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

Starting with the Dividends the value of ρ is .487 which is not less than .01 thusimplying a significant correlation between dividends and net profit after tax. The relation is positive as evidenced by the value .112. Analysis of the Total Assets gives a value ρas .359 which is not less than .01 meaning there is a significant correlation between Total

Assets and Net profit after Tax, the relationship is positive with a strength of .147 , and also analysis of the firms Leverage gives a ρvalue of .263 which again is not less than .01 hence we again suggesting the existence of a positive correlation with a strength of .179.

CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSION ANDRECOMMENDATIONS

5.1 Introduction

This chapter summarized the analysis in chapter four and highlighted the key findings in regard to the data analysis done. It drew conclusions and implications from the findings and gave recommendations. Limitations of the study and suggestions of areas for further studies were also captured in this chapter.

5.2 Summary of the Findings

This study was conducted to determine the effect of dividends on financial performance of financially constrained firms listed at Nairobi Securities Exchange. Below findings offers explanations of the findings obtained after regression analysis was carried out.

5.2.1 Dividend payout and firm performance

There was a positive significant effect of the dividends on the financial performance of the financially constrained firms. Some of the firms paid dividends to signal good news to investors but they were financially unhealthy. Some firms also paid more dividends than their cash reserves which are a sign of bankruptcy and unwise decision by the manager agents. The research hypothesis was supported as shown in table 4.6.3 that r(39)=.112 with the correlation index of 0.487 indicating that there is a moderate positive relationship between Dividends paid and the Net Profit After Tax.

5.2.2Total assets and firm performance

The Total assets were also a contributing factor to the profitability of firms since from this study. Total Assets correlation index of 0.359 as per table 4.6.3 asserts a positive relationship between the Total Assets and the Net Profit After Tax with a stronger relation to the firms performance of 0.147 compared to 0.112 of the Dividends even with the same degrees of freedom(39).

5.2.3Firm leverage

The Leverage of the firm is of greater positive significant influence on the performance of the financially constrained firms.For the firms leverage and with reference to the table 4.6.3 on tests of hypothesis, the R-value is 0.179 with the correlation index of 0.263 this

R-value indicates a more positive strongest relation between the firm's leverage and the net profit after tax.

Although some firms used dividends to signal 'good' news to investors but they were financially unhealthy. Some firms also paid more dividends than their cash reserves which are a sign of bankruptcy and unwise decision by the manager agents. The Total assets were of more significant contribution to the profitability of firms than the dividends paid whilst the Leverage of the firm is of greater positive significant influence on the performance of the financially constrained firms.

5.3 Conclusion

Dividends play a key role in the financial performance of the firm. Firms should pay dividends when they are financially healthy and not as a ploy to 'signal' and portray a good image to the public and potential investor. Generally financially distressed firms should not be paying dividends but rather issue more shares to shareholders to plough back the dividends with a bid to buffer the capital base.

Total Assets of the financially distressed firms also determine the financial performance although they should not be 'sacrificed' to please shareholders and potential investors. Pecking order theory should be adhered to. Leverage of a firm has a more significant effect on the financial performance compared to the actual dividends paid and the total assets.

5.4 Recommendations

Based on the findings of this research study, the following recommendations are made. First, Organizations should ensure that they have a good and robust dividend policy in place. This will enhance their performance and attract investments to the organizations. Secondly, a more stringent level condition should be established to compel directors to only invest in profitable ventures, report the utilization of retention earnings through notes to the accounts. Lastly, Government should set up a body that will help to manage unclaimed dividends and also ensure that situations that give rise to such are minimized.

5.5 Suggestions for further research

Many other factors may have influenced the performance of firms, factors that cannot be measured or quantified e.g staff morale, boardroom wrangles, and occupational health etc.It would be interesting if a similar study was conducted in concomitance with this to ascertain the findings. This would expand the scope of the literature on firm performance.

The researcher also proposes a similar study be done to firms that are not listed at the Nairobi Securities Exchange e.g the burgeoning Small and Medium Enterprises Sector. It would be worth to replicate the study in other countries in the developing world especially Africa.

5.6 Limitations of the study

The findings of this study should be viewed in light of a few limitations. The availability of the required data was a challenge. Also the presentation of the information on the Financial Statements was wanting as not all firms adhered to the International Accounting Standards (IAS) requirements.

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APPENDIX I:

NON FINANCIAL COMPANIES LISTED IN NAIROBI STOCK EXCHANGE

1	A. Baumann & Company
2	ARM Cement
3	B.O.C. Kenya
4	Bamburi Cement
5	British American Tobacco - Kenya
6	Car & General Kenya
7	Carbacid Kenya
8	Centum Kenya
9	CMC Holdings
10	Crown Paints
11	East African Breweries
12	East African Cables
13	East African Portland Cement
14	Eaagads
15	Eveready East Africa
16	Express Kenya
17	Kakuzi
18	Kapchorua Tea Company
19	KenGen
20	KenolKobil
21	Kenya Airways
22	Kenya Orchards
23	Kenya Power & Lighting
24	Kenya Re
25	Limuru Tea
26	Longhorn Kenya
27	Marshalls East Africa
28	Mumias Sugar

29	Nation Media Group
30	Olympia Capital Holdings
31	Rea Vipingo Plantations
32	Safaricom
33	Sameer Africa
34	Sasini
35	ScanGroup
36	Total Kenya
37	TPS Serena
38	TransCentury
39	Uchumi
40	Unga Group
41	Williamson Tea Kenya