

**ASSESSMENT OF THE FIRM'S SELECTED CHARACTERISTICS ON DIVIDEND
PAYOUT POLICY IMPLEMENTATION: A SURVEY OF FINANCIAL INSTITUTIONS
LISTED AT NAIROBI SECURITIES EXCHANGE**

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DECLARATION AND RECOMENDATION

Declaration by the Candidate

I the undersigned hereby declare that the work contained in this research project is my own original work and has not previously in its entirety or part been submitted at any university for a ward of any Degree.

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DEDICATION

This research project is dedicated to my mother Yuccabeth kemunto and brother Douglas Moseti for their encouragement and understanding during my time of this study. May God bless them abundantly.

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I wish to acknowledge the almighty God who gave me the courage and strength to face the challenges when writing this research project. I thank my supervisors Dr. Jared Bogonko and Dr. Caroline Ayuma for their advice too. God bless you.

ABSTRACT

Dividend payout policy implementation in many companies has over time been an issue especially in company finance. Investors expect a fair return on their investment irrespective of their preference either capital or dividend gain. However there has been a variance between expected return and actual return on investment in terms of dividends. The aim of the study was to assess the firm's selected characteristics on dividend payout policy implementation of listed financial companies: a survey of Nairobi Securities Exchange. The study was guided by the following objectives: to establish the extent to which investment decisions determine dividend payout policy implementation of listed financial companies in Nairobi Securities Exchange, to investigate the extent to which company earnings determine dividend payout policy implementation of listed financial companies in Nairobi Securities Exchange and to analyze the extent to which firms growth opportunities determine dividend payout policy implementation of listed financial companies in Nairobi Securities Exchange. The study was guided by Walter's model. The study adopted a survey study research design; surveys attempt to capture attitude or patterns of past behavior and they are relatively inexpensive and are useful in describing the characteristics of a large population. The population for this study was top level managers and middle level managers from financial firms on the Nairobi Securities Exchange listed as at June 2015 totaling to 111 respondents. To get a representative sample, the researcher used purposive sampling method to sample top level managers and simple random sampling technique for middle level managers. In order to determine the sample of middle level managers the researcher used Yamane's (1967) formulae. Data was collected using questionnaires which had a 5 point Likert scale structural questionnaire. To determine the validity of research instrument, the items in the questionnaires' content, structure and sequence were appropriately amended to remove any ambiguities; Reliability was tested through test-Retest technique with a correlation coefficient of above 0.6 being considered high enough to judge the instruments reliability. The data was then entered into the SPSS Statistical Package version 20 for analysis of data and the results were presented using descriptive statistics that include frequencies, percentages and other measures of central tendency i.e. means and standard deviations and inferential statistics such as multiple regression and Pearson correlation. The study will be of great significance to the management of listed financial institutions will find the study useful because it will enable them to formulate effective strategies that determine dividend payout policy implementation. It will be of great help to investors when selecting and building their investment portfolios depending on their dividend payout preferences. The findings will also help provide investors with information about the predictability of returns in the securities market. The study lastly will act as a source of reference material for upcoming scholars on other related topics; it will also help other academicians who will undertake the same topic in their studies.

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LIST OF ABBREVIATIONS

CMA	Capital Markets Authority
EPS	Earnings Per Share
GDP	Gross Domestic Product
NSE	Nairobi Securities Exchange
SPSS	Statistical Package for Social Scientists
Sig	Significance
Df	Degree of Freedom
KMO	Kaiser-Meyer-Olkin Measure of Sampling Adequacy

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Dividend payout policy has always been a debatable subject in corporate finance. Many researchers in the past have suggested theoretical models explaining the factors that managers need to consider when making decisions concerning dividends (Dhanani, 2005). Due to the difficult business setting, firms took completely different actions so as to manage the crisis and one of the actions was to regulate the dividend payouts to shareholders, since it is believed to absorb the shock. Usually managers attempt to keep a stable-growing dividend and managers are not in need to decrease the dividends since it is usually understood as a negative signal. Throughout the crisis the trend of stable dividends was abandoned and some firms drastically reduced their dividend payouts whereas others at constant time raised the dividends (Abu, 2012).

According to Lintner (2001) dividend decision is very important to the investors and firms. It is the choice of company's management that determines what proportion of the earnings ought to be invested and which percentage should be given to investors in form of dividends. In making this decision the management ought to put into consideration the availability of investment opportunities that will increase future returns and if such opportunities do not seem to be attainable the management ought to distribute the earnings to shareholders (Miller & Modigliani, 1961). The traditional perspective of the dividend decision states that at a specific time the quantity cash flow paid now as dividend is additionally valuable than the reserved cash. The traditional perspective argues that paying early dividends might not make changes to the corporation risk level, however it will make changes on the perception of the investors

concerning the corporation's risk level. Hence dividends are additionally valuable than reserved earnings (Aivazian, Booth & Cleary, 2003). In imperfect market investors prefer firms with a dividend pattern similar to their consumption pattern. That is the explanation why many firms follow an even dividend policy and their management take into account the reduction in dividend as a weakness signal. Therefore the next dividend would solely be declared if the firm will be able to manage it in later.

In imperfect markets, investors have incomplete information therefore less amount of knowledge on dividends is in the market and whenever information is available it is taken into consideration as a necessary by the investors. Announcement of dividend is taken as an indicator of growth in the future of the firm. These aspects prove the importance of dividend and its relevance (Aivazian, Booth & Cleary, 2003). Basically, dividend policy may be labeled into models, effects of clientele, tax effects, free cash flow and agency models (Frankfurter *etal*, 2004, Brav et al, 2005). There may be an emerging consensus that there's no single rationalization of decision making concerning dividends (Abrutyn and Turner, 1990, Rent et al, 2000). Recent studies showed that the patterns of company dividend payout policies not only vary across time periods but it also varies throughout nations of the world (Pandey, 1995; Sarig, 2004).

According to Anil, & Kapoor (2008) Company's earnings are used to buy securities, to retire debt, invest in operative assets or these earnings will be distributed to shareholders within the type of dividends. Dividends are necessary for investors as dividends are thought to be a signal of company's monetary well-being. Dividends also assist in maintaining the market value of the corporation's share. Companies with a history of payment of stable dividends may be affected negatively by decreasing dividends. Similarly firms that have not paid dividends would be viewed favorably after they would pay dividends (Al-Shubiri, 2011).

Dividend policy is one of the important monetary decisions that company managers ought to build a wise decision on (Baker and Powell, 1999). Dividend policy has an effect on the costs of shares and thus returns to investors, the financing of firm's growth and the equity base by holding finances alongside its leverage (Muchiri, 2006). The dividend policy, both as a matter of policy share worth and enhancing feature is one of most hard matters of current monetary economics. Aivazian *et al* (2003), in their study conveys to the fact that a firm should pay dividends to its shareholders if it didn't determine viable investments which might bring higher returns.

In the developed economies dividend theories have been advanced trying to clarify how dividend decisions are made and whether or not they have a control on the firms' worth. Different ideologies comprises of the traditional group that believes that increase in dividend or paying out dividend will increase the worth of a firm, the radical group believe that it reduces the value of a firm whereas those within the middle believe that it does not have an impact on the value of a firm (Farsio *et al.*, 2004).

An examination of company dividend policy practices in emerging markets is currently not well set up within the literatures Lease *et al*, (2000). Emerging markets vary from the ones in evolved countries in terms of their organizational corporate governance, company taxation on dividends and capital profits finally company investments (La Porta *et al*, 2000 and Lin, 2002). Further, corporations in developing markets are subjected to extra financial constraints than those in the developed markets Glen and Singh, (2004); they frequently have much less statistics efficiency, more volatility, and smaller marketplace capitalization (Fuss, 2000; Bekaert and Harvey, 2003) which may additionally have distinction effect on their dividend policy. As an example, Adaoglu (2000) stated that the emerging market firms have unstable cash dividend policies and the

principle aspect that determines the amount of company dividends was the earnings of the enterprise yearly. Aivazian and Booth (2003) additionally discovered that companies in developing nations were proven to be much reluctant to trade its dividends than their counterparts in the developed markets.

In African countries the NSE is ranked the largest securities exchange, when it comes to trading volumes and ranked the fifth in market capitalization as a percentage of GDP (CMA Bulletin, 2009). It was established in 1954 and the products traded include bonds and Shares jointly referred as securities. A sum of 61 companies are listed from various market sectors namely; automobiles ,telecommunication, technology and accessories sector, insurance, investment sector, manufacturing, banking sector, construction, energy sector, and growth enterprise market segment (NSE website). This study hence sought to assess the selected characteristics on dividend payout policy implementation of financial companies listed.

1.2 Statement of the Problem

Dividend payout policy implementation in many companies has over time been an issue especially in company finance. Investors expect a fair return on their investment irrespective of their preference either capital or dividend gain, however there has been a variance between expected return and actual return on investment in terms of dividends.

Despite the fact that there is literature on dividend payout policy implementation, majority of studies have focused on investment choices of small and medium enterprise and therefore little has been done on the factors determining dividend payout policy implementation in financial institutions. Studies by (Arnott & Asness, 2003; Farsio *et al.*, 2004 and Nissim & Ziv, 2001) have looked at dividend payout policy implementation of non-financial institutions. However

these studies did not look at how investment decisions, company earnings and growth opportunities determine dividend payout policy implementation.

In Kenya, studies that have been carried out on dividend payout include: Ndungu (2009) who studied the determinants of dividend policy at the Nairobi Securities Exchange, and his findings were that company profitability, growth and size of liquidity, influenced the dividend ratio. A study done by Muchiri (2006) focused on determinants of dividend payout and found out that current and expected cash flow position, future profits and financial needs of the company and availability of profitable investment as factors that affect dividend policy. Bulla (2013), analyzed the factors influencing dividend policy of listed public companies at the Nairobi Securities Exchange and found out that earnings were significantly associated with dividend payout for companies involved in the study. This left a wide gap that the study sought to fill; therefore this study focused on assessing the firm's selected characteristics on dividend payout policy implementation of listed financial institutions in the NSE.

1.3 Objectives of the Study

1.3.1. General objective of the study

The general objective of the study was to assess the firm's selected characteristics on dividend payout policy implementation of listed financial institutions in the NSE.

1.3.2. Specific objectives of the study`

The study was guided by the objectives below:

- i. To find out the degree to which investment decisions determine dividend payout policy implementation of listed financial companies in Nairobi Securities Exchange.

- ii. To investigate the extent to which firm's earnings determine dividend payout policy implementation of listed financial companies in Nairobi Securities Exchange.
- iii. To analyze the extent to which firms growth opportunities determine dividend payout policy implementation of listed financial companies in Nairobi Securities Exchange.

1.4 Research Hypotheses

H₀₁. There is no significant relationship between investment decisions and dividend payout policy implementation of listed financial companies.

H₀₂. There is no significant relationship between company's earnings and dividend payout implementation of financial companies listed.

H₀₃. There is no significant relationship between firm's growth opportunities and dividend payout policy implementation of listed financial companies.

1.5 Significance of the Study

The study will be of great significance to several stakeholders including the management of financial institutions listed in the Nairobi Securities Exchange, the policy makers, investors as well as other scholars.

The management of listed financial institutions will find the study useful because it will enable them to formulate effective strategies that determine dividend payout policy implementation.

Investors: The study will be of great help to investors when selecting and building their investment portfolios depending on their dividend payout preferences. The findings will also

help provide investors with information about the predictability of returns in the securities market.

Other scholars: The study will act as a source of reference material for upcoming scholars on other related topics; it will also help other researchers undertaking the same topic in their studies.

1.6 Scope of the study

The study was conducted at financial institutions listed in the Nairobi Securities Exchange as at as at 6th June 2015 where a total of sixty-one firms from various sectors were listed. The target population was employees from these institutions namely: Barclays Bank of Kenya Limited, National Bank of Kenya Limited, CFC Stanbic of Kenya Holdings Limited, Standard Chartered Bank Kenya Limited Equity Bank Limited, I&M Holdings Limited, Kenya Commercial Bank Limited, Diamond Trust Bank Kenya Limited, Housing Finance Company Kenya Limited and the Cooperative Bank of Kenya Limited. The study period was from February 2016 to August 2016.

1.7 Limitations of the Study

The study focused on the listed financial institutions in Nairobi Securities Exchange. Therefore the findings of the study were not generalized. There was a possibility of non-response error that affected the accuracy of the results. To curb this limitation the respondents' confidentiality was ascertained.

1.8 Operational Definition of Terms

Dividend Payout Ratio: This is dividends paid out to shareholders at a given time in ratio form.

Dividend Policy: This is a plan of action that allows company directors to decide how much dividends to give shareholders in terms of percentage in a given financial period.

Earnings per share: It is defined as company's profit portion that is allotted to each outstanding prospect ratio in the market.

Growth opportunities: Refers to available and viable investments for a company.

Investment decision: Refers to a determination of how, when, where and how much capital will be spent on investment opportunities.

CHAPTER TWO

LITERATURE REVIEW

2.1. Review of Theories

The theories underlying company dividend policy implementation can be explained either in accordance to dividend irrelevance or dividend relevance concept. Miller and Modigliani (1961)'s irrelevance principle creates the foundational bedrock of modern-day company finance concept. Miller and Modigliani argued that dividend policy is irrelevant for organizations cost of capital and the firms value in a global market without taxes or transaction fee. Others scholars later came up with dividend relevance theories which consist of; the bird in hand theory, clientele effect theory, tax differential theory, information content principle, agency theory amongst others which did not support MM's (1961) dividend irrelevance idea. However, this review was aided by the dividend relevance theory and the bird in hand theory.

2.1.2 Dividend relevance theory

The study was guided by Dividend relevance theory developed byWalter's and James' in 1993, the theory states further the value of a firm is affected by adopted dividend policy, the simplicity of the theory may lead to making conclusions which are not true for the model. Dividend relevance theory is a theoretical model that clearly shows the importance of the relationship existing amongst the firm's its cost of capital and rate of return. This theory is useful to show the determinants of dividend payout policy on equity firms with varied assumptions about the profitability of the company (Baker, Veit& Powell, 2001). This model has the following assumptions: constant return on investment, retention of internal financing and cost of capital are

constant. It therefore assumed that all investments of a company are financed by the firm through retained earnings (Al-Kuwari, 2009). Dividend relevance theory does not put into consideration the importance of an optimum capital structure because even if a firm has achieved an optimum capital structure, the structure still has to be maintained in future financing to get the merits of optimum capital structure.

It is also assumed that the internal rate of return will always remain constant. In real world situation this is not true as rate of return generally declines when more investment decisions are considered by the firm. The internal productivity of the retained earnings is also not precisely quantifiable. Lastly, the assumption that cost of capital also remains constant may not hold in real world. If the risks of the firm changes, the cost of capital also changes and therefore this assumption that the cost of capital will remain constant is ignored due to its effect of risk on the overall value of the firm (Murekefu & Ochuodho, 2012).

This theory further states that the shares of the firm where rate of return is greater than capital will have the highest market value if dividends are not declared at that particular dividend period. Correspondingly, where rate of returns are less than capital declaration of the highest possible dividends will lead to the maximum price of its shares. Both these situations are abnormal and not practical in real life situation (Amidu, 2007).

Dividend relevance Walter's model is relevant to this study because it clearly shows how dividend payout policy determines the value of the firm. Further it shows the determinants of dividend payout policy implementation on equity firms with varied assumptions about the profitability of the company.

2.1.3 The bird in hand theory

The theory was developed by Lintner in 1956 and it has been supported by various researchers including Gordon (1959). The theory has an opposing view towards Modigliani and Miller's dividend irrelevance theory which holds that dividends payout does not affect the company's value. It asserts that investors prefer dividends to capital gain that is uncertain further stated in financial terms the theory says that investors are more willing to invest in stocks that currently pay dividend instead of stocks that retain earnings and pay dividends in the future. This is because capital gain is not predictable as dividends, because the price of shares is determined by forces in the market and not by the managers it has a higher degree of uncertainty

The bird in hand theory has the following assumptions: A firm incurs a constant cost of capital, a firm uses retained earnings to finance expansion and that a firm does not have a debt component in its structure. However, the bird in hand theory has been subject to a sharp criticism, according to Keown *et.al* (2007) argues against the theory and says that rise in current dividends it does not lower the preciousness of an organization. This is argued that when increases in dividend payments are made the managers need to give out new shares so as to raise the required capital. Therefore a dividend payment relocates the risk to new shareholders from the old one. Besides the theory containing some limitation Keown *et.al* (2007) argues that there are still many individual shareholders and financial firms who view dividends to be important.

Bird in hand theory is relevant to this study because it outlines returns on investment and how the investors perceive dividends. It clearly indicates that investors are more willing to invest in stocks that pay dividends on current basis instead of investing in stocks that are retaining earnings in order to pay dividends later. Thus firms too factor in individual investor preferences

to be able to come up with an optimal decision concerning implementation of dividends payout policy.

2.2 Empirical Review

According to Baker, Powell, and Veit, (2002) organizations dividend payout policy is a one of the most debated topics and important principle of company finance. Many researchers have provided diverse theories and uncountable empirical evidences; however it stays to be one of the most critical issues in company finance decision making. There are various scholars who have attempted to empirically document the relationship between dividend payout policy and future company overall performance, Luvembe and Njangiru (2014) examined the effects of Dividend Payout on market cost of listed Banks in Kenya, their study sought to determine whether capital structure, company earnings, dividend payout ratio and capital market investments have any impact on marketplace value among listed banks in Kenya. The study followed descriptive studies design and its target population entailed 10 banks in Kenya that were listed as at December 2010. A census survey was adopted as a sampling design. Secondary and primary information was used in the study. The secondary records were obtained from Nairobi Securities trade for the period between 2006 and 2010 whilst the primary facts were accrued from senior finance officers through an interview schedule. The study discovered that there exists a significant relationship between market cost, company earnings, and dividend payout ratio and capital market investments in most of the years. It therefore concluded that the dividend coverage adopted has a full-size impact on market price of banks. Lastly the study recommended that commercials banks should not forget their profitability, past sample of dividends, structure of capital ownership, expectation of shareholders, opportunities for investment, tax role of shareholders and the entry to capital markets in designing a dividend policy. Also the banks have

to keep in mind the monetary desires of the corporations when designing their dividend payout policy.

Shisia and Sang (2014) investigated the impact of dividend policy on economic performance of organizations quoted on the Nairobi Securities Exchange. In their study they used secondary sources to generate data. Random sampling approach was used to select a sample of 30 listed corporations at NSE. A regression model was generated to determine the extent to which each independent variable affected the dependent variable. A correlation analysis was also carried out to locate how the variables are related to each other. The study concluded that there's a significant relationship between dividend pay-out ratio and dividend policy. It similarly indicated that the connection is not tremendous but also indicates that a unit change in dividend according to percentage is accompanied by using a unit change in retained income.

Maniagi *et al* (2013) did a study on the determinants of dividend payout of non-financial companies listed on Nairobi Securities change; the study used Purposive sampling technique to get a sample of 30 non-financial agencies listed for a period of five years from 2007 to 2011. Secondary statistics was obtained from audited financial statements of companies from Nairobi Securities exchange websites. Dividend payout ratio became established variable whilst impartial variables were profitability, current profits, and liquidity. Size and business threat was taken as moderating variables, the study indicated that return on equity cutting-edge income and corporations,, profitability have been found to be definitely correlated to dividend payout of commercial enterprise risk and size.

Njoroge (2001) studied the connection between dividend policies and return on assets and return on equity of companies indexed on the NSE and found out that there was a significant correlation

among dividends paid, return on equity and return on assets. Wairimu (2002) carried out a detailed study on the correlation between dividend and investment decisions of corporations quoted at NSE. She concluded that, dividend selections are affected by funding choices because the decisions are competing for inner assets of budget for the reason that the finances received by debt are costly and aren't available to many organizations.

According to Deshmukh, (2005) a major obstacle to understanding corporate dividend policy is the availability of a couple of potential causes of behavior. A few of the essential motives stressed by means of modern theories encompass organization and different informational issues between owners and managers Bebczuk, (2004). As a consequence, even as the shareholders use dividends to extort assets from the control of managers, corporate managers use these dividends to send credible profitability messages to the capital market.

Odhiambo (2011), further indicated that the policy of dividends practiced by an enterprise is a strong sign of a firm's overall performance, even though relationship among the two variables does no longer meet unanimity of theoretical and empirical research. Certainly, positive distribution of earnings in favour of shareholders can be considered as a sign of treasury ease as it may be interpreted as revealing limitations at the extent of investment horizons. Further, maintaining income to be reinvested is often badly interpreted by the market, especially in the case of listed corporations, but this can also be considered as a signal of robust profitability potentials.

2.2.1 Firm's earnings and Dividend payout policy implementation

Arnott & Asness (2003) in their study shows that company earnings are directly linked to high dividend payout. Historical evidence from their conclusion suggests that expected company earnings are high if present payout ratios are high. Nissim & Ziv (2001) did a study and shows that a company whose dividend payout is high gets high future earnings and on the other hand, firms report low earnings in the past in terms of firm's growth. Potential investors and shareholders in a company consider dividends as vital because it shows company earnings to being made in a given period. Good dividend policy indicates that firms are making real earning than merely coming up with the figures to put on the books (Baker, 2001).

A company that has incredibly stable income is often able to predict its future earnings. Therefore, the corporations with strong stable profits are more likely to pay out dividends than the companies with fluctuating income. Brav *et al* (2005) stated that, one of the most important factors determining dividend decision is stability of firms' future profits and a change in earnings that is sustainable. According to Aivazian and Booth (2003) and Amidu and Abor (2006) dividend payout has no relationship with risk. Their study findings suggested that the correlation also endorse that firms with less variability in income earnings have the potential to pay dividends.

Arnott & Asness (2003) explains that for the positive association between dividend payout policy and future investment, managers of a firm tend to relax in cutting dividends. A high payout proportion shows confidence in a firm in growing future earnings and stabilizing them. If a firm has low payout ratio it shows that the firm's management lack confidence in sustainability

of earnings growth. The positive relationship is also contributed by static dividends put together with reversing the mean in more volatile earnings (Arnott & Asness, 2003).

Rise in dividends in an exceedingly quarter is the results of the management's policy to make investors happy and stops them from selling the stock (Farsio *et al.*, 2004). This is regularly a case of rising dividends followed with the aid of declining dividends. An increase in dividends is also the results of sensible performance in previous periods which can continue into the long run Hence, supports the opinion of a positive causative relationship between a firms forthcoming proceeds and its present dividends (Farsio *et al.*, 2004).

Arnott & Asness (2003) stated that basing on free cash flow theory, there is a positive relationship between current dividend payout and company earning. Growth of future earnings is increased by discipline and reducing disagreements through choosing investments carefully. Dividend increase are related to future investments for a minimum of two years when the dividend amendment, whereas dividend reduces are not related to future investments. They propose that this lack of association is explained by accounting ideology. Companies that increase payouts have excess monetary flexibility and exhibit positive financial gain shocks and reduces in financial gain volatility (Jensen, 1999).

Company earnings measures the extent to that a firm has ability to meet its payment obligations. Jensen (1986) stated that the management may allocate themselves with surplus cash; hence a firm should pay dividends out to reduce free cash flow and protect it from spending more cash in unproductive projects. Therefore paying dividends is then a mechanism to control the agency issues. Scholars Alli, Khan, and Ramirez (1993) scrutinized determinants of company dividend payout policy by using the sample of firms listed on the New York Stock Exchange amounting to

105, leaving out firms that were in regulated utilities and banking sectors. Through use of factors analysis, results exhibited that the firms with high cash flow have low systematic risk, thus indicating high ability to pay dividends. On the other hand, the firms with cash deficit are less expected to give out dividends. According to Anil and Kapoor (2008) investigated determinants of dividend payout proportions in Information Technology Sector during 2000-2006 in India. They found a significant positive relationship between liquidity, which is measured by flow of cash, and payout dividend ratio. On the other hand, Kania and Bacon (2005) presented the opposite results because in their study they found a negative association between liquidity and dividend payout. Moreover, Rozeff, M. (1982) attempted to identify the of dividend payout determinants of 100 firms listed in Karachi Stock Exchange Using, operating cash stream as a proxy of liquidity; they stated that an increment in operating cash flow reduces the degree of dividend payout. However, bringing further confusion to the literature existing, Al-Kuwari (2009) and Al-Shubiri (2011) in their studies found that dividend payout is not affected by liquidity. Therefore, firms with high levels of liquidity tend to pay dividends than those with low levels of liquidity which means there will be shortage of cash hence no dividends to be paid out. Luvembe & Njangiru (2014) revealed that dividend payout ability is determined by companies' cash flow.

2.2.2 Firm's growth opportunities and dividend payout policy

According to Fama and French (2001) investment opportunities influence dividend decision. They further state that firms with better growth and investment opportunities pay low dividends. However, in regard to maturity hypothesis postulated by Grullon *et al* (2002) as the firms grow to maturity investment opportunities decreases. Hence more cash will be available freely to pay as dividends. On the other hand small firms need to grow their reserve to enhance steadfast

growth. This triggers them to pay little or not to pay dividends in order to increase their reserve. (Howatt *et al* 2009) argues that if projects available their returns exceed the hurdle rate or have a negative present value issue excess cash to shareholders as dividends. The residual theory suggests that organizations which have growth opportunities that are high give out a low ratio than with low growth firms. The study used price-earnings ratio to serve as an alternative for a company's later growth prospects. A negative relationship between the growth of the firm and the dividend payout ratio is expected. Thus higher growth firms pay a lower proportion of earnings as dividend so as to meet its investment needs

Zeng (2003) indicated that if a firm's growth opportunities is used as one indicator of the unforeseeable future and positively related to the costs of finances, payment of dividends may upsurge the financial distress for a firm with a high leverage ratio (Shisia, Sang, Waitindi, & Okibo, 2014). His study results show that dividend payout is reverse related to leverage. Fenn and Liang (2001) results studies also indicate that firm financial debt to assets ratio is inversely related to dividend payout ratio of a firm. Scholar Nash *et al* (2003)'s study also supports the argument due to the debt covenants addition to minimize dividend payments by the bondholders.

According to the pecking order theory, a firm that has more investment expectations will tend to use internal finance in order to minimize the costs of external borrowings (Myers & Majluf, 1984 cited in Ndungu (2009)). Thus, a firm having an increase in investment tends to limit dividend payment to reserve internal finance for its investment. The dividend policy adopted by a company influences its capital structure specifically the residual dividend policy which requires that if a firm does not have viable investment opportunities and it ought to pay dividends and a company's stock price is also affected by the dividend pattern. Rozeff (1982) as cited in Bikoro (2012) empirically found negative relationship between investment opportunities and dividend

payout. They asserted that when U.S hospital firms, having fixed assets-intensive, acquire large amounts of new capital, they prefer investing in their projects to paying dividends.

Myers & Majluf (1984) as cited in Ndungu (2009) postulated that firms that have high investment opportunities rather pay higher dividends. Nonetheless, (Fama & French, 2001), Gill *et al.* (2010) asserted that investment opportunity is not an important factor influencing dividend payout decisions. Al-Shubiri (2011) examined the determinants of changes in dividend behavior policy in Jordanian industrial firms and found the positive relationship between investment opportunities and dividend. The strong positive relationship pointed out that Jordanian firms, both having high growth opportunities and facing different choices of financing, still pay more dividends.

Rozeff (1982) as cited in Bikoro (2012) found that a growing firm tries to retain internal finance and limit its dividend payment due to the costs of using external borrowings that are commonly higher than costs of using internal funds. Gill *et al.* (2010) found a negative relationship between investor expectations growth and dividend payout for entire sample and particularly in organizations. On the other hand (Aduda & Kimathi, 2011) in their study held that investor expectations are negatively related to dividend payment because they found that Kenyan banks having high growth rather use funds from internal financing to expand their projects. In other words, they tend to retain a large amount of earnings for future investment, not for dividend payment. Growth opportunities are a clear indication of the positive sign of ongoing firms' operations. Increasing level of company's growth in a consistent behavior refers to a firm potentially entering into stage of growth business cycle and would expect positive cash earning power in the future year. A firm with high growth then requires a large amount of financing to invest in its project. In contrast, (Rozeff, 1982) also revealed that the investor

expectation is the main factor of dividend payout and when the firm has higher profits growth, they ought to distribute higher dividend payment to make shareholders satisfied.

2.2.3 Investment decisions and Dividend payout policy implementation.

It is at interest of every company to ensure shareholders get value for their investments through implementation of sound financial investment decisions which comprise investments. External financing is costly and therefore firms with potential investments prefer retaining capital inside rather than distributing it as dividends (Myers, 1984). According to scholarly work of Dhanani (2003) a firm's dividend policy will influence its capital structure or investment choices and successively enhance the firm's value to shareholders. Wealth of shareholders is increased via effective investment methods, supported by an optimum capital structure. Financial managers thus cannot alter the investment choices of their companies by ever-changing their dividend payout policy. A firm's dividend policy has no effect on the worth of the firm in an exceedingly good and complete market (Stulz, 2000). The valuation of companies also focuses on the link between dividend changes and investment choices, that is, future earnings or dividends.

Dividend policy is viewed as a result of the investment and funding choices since the corporate must decide the way to distribute wealth generated from these methods. Further Aivazian *et al.* (2003) posits that since company investment is sensitive to monetary constraints, a firm's dividend choices that directly affect its free income may have an effect on its investment. This arises once a firm's dividend policy is viewed as a residual to its capital structure and investment selections; internally created cash flows from current investment is going to be used to optimize the firm's capital structure and future capital decisions on investment and additional goes to shareholders as dividends.

The theory of pecking order suggests that capital structure proposals of firms can like internally generated money flows to external funds and thus pay low dividends. It thus suggests that companies that pay high dividends experience low growth that contradicts studies by Choudhury & Ruland (2006) and Arnott & Asness (2003). If a firm's dividend policy will give further insight into the cash flows, then an additional reliable estimate useful will be obtained (Howatt *et al.*, 2009). The equity part of a firm will increase once additional earnings are preserved. However, if a firm contains a large payout, funding might have to come back from debt. A rise in debt without a proportionate increase in equity might end in a deviation from a firm's optimum capital structure (Baker, 1999). Lenders during this case cannot see dividends as a fixed payment which can adversely affect the firm's cash flows. They can therefore be additional willing to allow debt to companies. A firm's dividend policy will reduce agency issues between managers and shareholders and in turn, enhance the firm's investment choices (Dhanani, 2005).

Dividend payments force companies to increase funds from outside for brand investments that will successively increase the level of external observation of company activities by the capital market regulator (De Angelo *et al.*, 2006). According to Dhanani (2005) did a study that showed that dividend policy is very important in maximizing invest or value. A firm's dividend policy will influence one or additional of imperfections within the real world like information imbalance between managers and shareholders; agency issues between managers and shareholders; taxes and group action prices and successively enhance the firm's investment choices.

De Angelo *et al.* (2006) held that dividends are the simplest way to resolve agency issues wherever managers used excess cash flows to satisfy personal interests. By paying dividends to shareholders, free cash flows can be reduced and hence managers may not have chance to create suboptimal investments. Different situations of shareholders and investors take into consideration a firm's dividend policy and hence affects the value of the firm (Dhanani, 2005). Firms can come up with dividend policy that meet shareholders needs depending on preference shares. Information on future earnings of a firm is not provided by dividends only but also from firms with desired and preferred dividend policy. Mundati (2013) affirmed that firms should come up with articulate dividend policies to suit different shareholders dividend preferences. Some shareholders can prefer cash dividends because they are stable and others choose capital gains. Aivazian *et al.* (2003) argue that since company investment is sensitive to monetary constraints, a firm's dividend choices, that directly affect its free income, may have an effect on its investment. This arises once a firm's dividend policy viewed as a residual to its capital structure and investment selections; internally generated money flows from existing investments are going to be used to optimize a the firm's capital structure and future capital decisions on investment and additional goes to shareholders as dividends (Dhanani, 2005).

2.3. Knowledge gap

A number of studies have been done on factors determining dividend payout policy and gaps have been established that this study seeks to fill: Musiega *et al* (2013), did a study on determinants of dividend policy and its effects on performance of a firm the results showed that dividend policy determines the performance of a firm as it is indicated by its profitability in a given period. Rozeff (1982) conducted an investigation regarding the determinants of dividends in United States and he found a strong negative relationship between the riskiness and the

dividend payout policy. Arnott & Asness (2003), did a study on the effects of higher dividends and high earnings on a firm's growth and basically concluded that dividends are determined by a target payout level which depends on the company's long term earnings.

Lintner's research was supported by Gordon (1959) who stated that the shareholders prefer dividends rather than capital gains. If this is true, the company's dividend payouts are of major importance both to shareholders and managers since it contributes to a higher value and shareholders would be willing to pay a higher price for stocks that pay dividends. It is in light of this that there is a clear exploration on this space through research to bridge the present gaps. This study therefore seeks to fill this gap by assessing the firm's selected characteristics on dividend payout policy implementation of listed financial institutions. It will bring out an in-depth understanding of the determinants of dividend payout policy implementation like investment decisions, firm's earnings and firms growth opportunities with specific interest in financial institutions listed on Nairobi securities exchange.

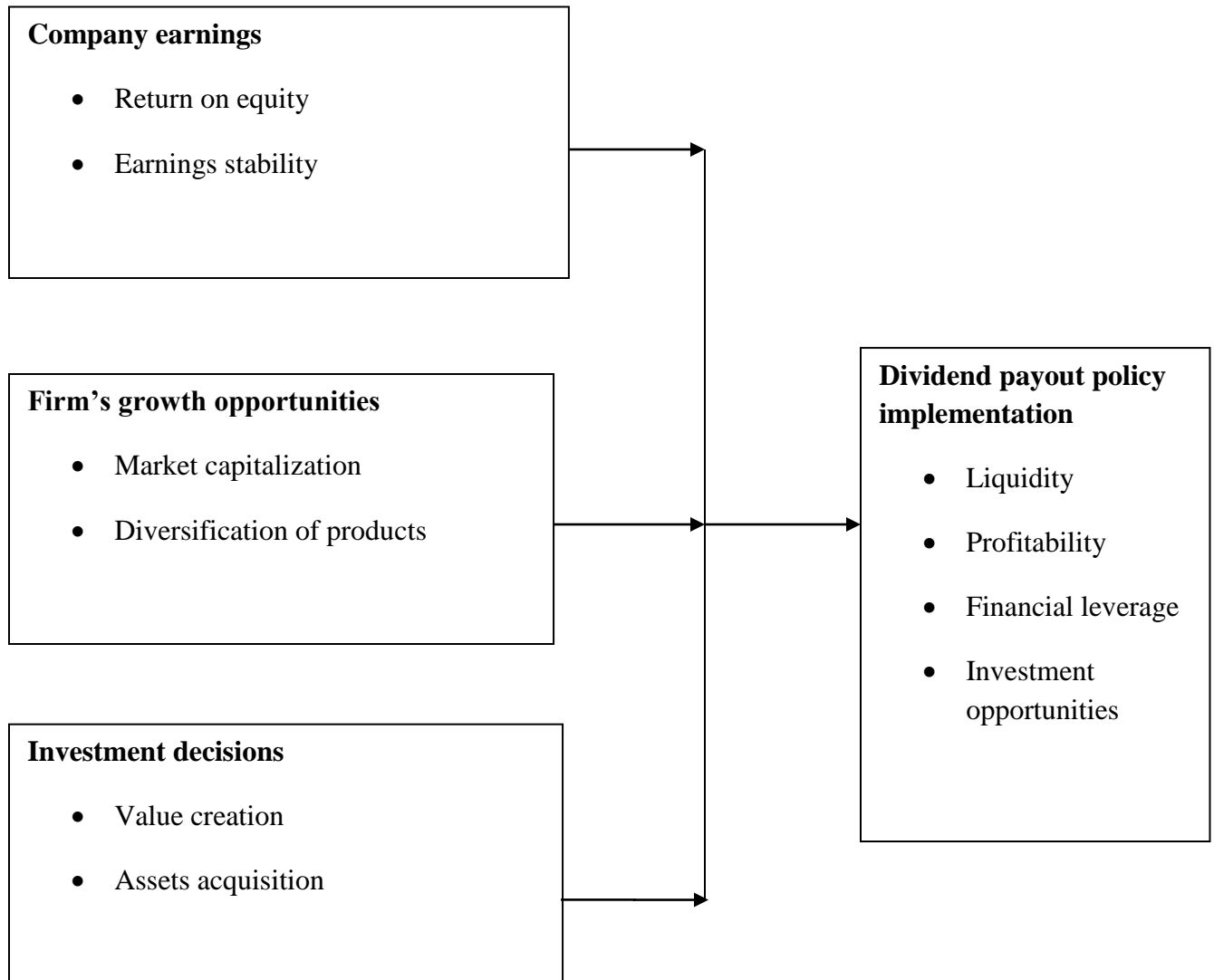
2.4 Conceptual Framework

The study's conceptual framework identified the independent and dependent variable as shown below:

Figure2.0. Conceptual Framework

Independent variable

Dependent variable



Source :(Author, 2016)

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 Research Design

Kothari (2009) argues that a research design is a plan, structure or strategies or investigation undertaken in answering research questions and to control variants. The research design provides a concrete framework for a study. Orodho (2009) defines research design as the scheme; draw round or plan that is used to create response to research problem.

The study used a survey study research design. The reason behind this methodology was to measure variables through questioning people in order to analyze relationships among the variables. In most instances, surveys endeavor to bring out attitude and patterns of past behavior (fowler, 1993). Surveys are relatively inexpensive and they are important in unfolding the features of a large population. Besides, reliability is easy to achieve by presenting all subjects with a standardized spur and therefore objectivity is eliminated.

3.2 Target Population

Mugenda and Mugenda (1999) defines target population as a process to which a researcher wants to generate the results of the study. The population for this study was listed financial firms on the Nairobi Securities Exchange as at 2015/2016 financial year. The population of NSE listed financial firms stand at 11 companies (CMA 2015) as shown in Appendix II. The target population included firms drawn from the financial market which is key to the economy. Listed financial firms were suitable for this research study due to the credibility and authenticity of data

obtained from them because they must adhere to the various guidelines and requirements as issued by the NSE and the capital markets authority from time to time.

3.3 Sample Size and Sampling procedures

Kothari (2009) defines a sample as a sub-group of a population or universe; while sampling is the process they are selected. (Baker, Gandhi, 2007) argues out that a sample should be picked in such a way that it represents the entire population to be investigated. Kothari (2009) explains that the size sample should neither be excessively large or small. An optimal sample is one which fulfills the necessities of representatives, efficiency, dependability and flexibility.

To get a representative sample, the researcher was purposive sampling method to top level managers of the monetary institutions recorded in the Nairobi Securities Exchange, the process which involves selecting a sample based on level of experience or knowledge of the group to be sampled. For the case of selecting middle level managers' simple random sampling technique was used as shown below:

Sample Determination

In order to determine the sample of middle level managers the researcher used Yamane's (1967) formulae which is as follows;

$$n = \frac{N}{1 + N(e)^2}$$

Whereby;

n refers to the sample size,

N refers to the population size, (100)

e is the level of precision (0.05).

N= 100

$$n = 1 + 100 (0.05)^2$$

n= 80

Therefore, 80 respondents were sampled from middle level managers and 31 branch managers making a total of 111 respondents

Table 3.1 Sample size

Financial firms listed	Managers	Middle level Managers	Total
Barclays' Bank.	3	9	12
CFC Stanbic Bank	3	10	13
Cooperative Bank	5	10	15
National Bank	6	9	15
Equity Bank	3	7	10
Kenya Commercial Bank	4	8	12
Diamond Trust Bank	4	14	18
Kenya Limited			
Housing Finance Company	3	13	16
Kenya Limited			
Total	31	80	111

3.4 Data collection Instruments

The study used questionnaire as data collection instrument. Questionnaires are a collection of items to which a respondent is expected to react in writing. The designed questions or items in word format are distributed to the respondents. This method enables collection of information needed within short period (Mugenda and Mugenda, 1999). The method is appropriate when the data needed can be easily described in writing and if time is limited. The questionnaire was in two parts, demographic information of the respondents and questions on specific objectives. The 5 point Likert scale structural questionnaire was useful in analyzing data in questions that directly involve the attitudes of the respondents.

3.5 Data collection procedure

The researcher directly administered questionnaires to the respondent using drop and pick method and the researcher made a follow up to ensure that questionnaires were filled in accordance with the research. The respondents were given enough time to respond to the questionnaire before picking them for analysis.

3.6. Validity and Reliability of Research Instruments

3.6.1. Validity of research instrument

Content validity refers to the subjective agreement among scholars that a scale logically appears to reflect accuracy of what it purports to measure (Kothari, 2005).

The questionnaires were scrutinized for errors and omissions, ambiguity and legibility in order to improve its relevance. The questionnaires' content, structure and sequence were then appropriately edited to improve it and ensure content validity. Besides, research experts who

were the supervisors were used to examine them and their suggestions and comments were used as a basis to modify the research items.

3.6.2 Reliability of research instrument

Reliability refers to the uniformity that an instrument demonstrates when applied repetitively under same circumstances (Kerlinger, 2003). The reliability of the instruments was pre-tested through use of a pilot study to determine their efficacy in collecting the information needed. Test-Retest technique was used through administration of the questionnaires developed after a period of two weeks in three listed financial institutions, According to Cooper & Schindler, (2003) a pilot group may range from 10 to 15 items depending on the manner to be tested but it does not need to be statistically selected. The responses of the two tests were scored manually and Cronbachs' Alpha was used to compute the correlation coefficient. The reliability of the questionnaire was therefore tested using Cronbach alpha measurements. The results are shown in table 3.2

Table 3.2 Cronbach's Alpha Reliability

Variables	Number of items	Cronbach AlphaCoefficient
Company earnings	5	0.709
Firms growth opportunities	6	0.766
Investment decisions	6	0.771
Dividend payout policy implementation	4	0.753

From the study the reliability coefficients of each variable were as follows: company earnings (0.709); Firms growth opportunities (0.766); Investment decisions (0.771); and dividend payout policy implementation (0.753). The reliability coefficients of most of the variables are above 0.70, The internal consistency was considered to be sufficient and adequate based on the suggestion made by Nunnally (1978).As indicated in the above table Cronbach's alpha was computed separately for the study variables to enable assess the internal consistency among the study variables.

3.7 Presentation of data and analysis

The data for the study was entered and coded for totality and precision of material. The data analysis was done using the inferential statistics and descriptive which included; frequencies, percentages, while inferential statistics were; Pearson's correlations and multiple regressions. The data was then entered into the SPSS Statistical Package. Factor analysis was employed to reduce the independent variables in the regression model to a smaller set of uncorrelated factor scores.

A correlation analysis was performed to ascertain whether there is existing relationship between the variables. Further multiple regressions were used to test the hypothesis; it was able to estimate the coefficients of the linear equation, including one or more independent variables that best predicted the value of the dependent variable. Multiple regressions have the following assumptions, Normality assumption which assumes that all the variables of the study have normal distribution this will be tested by use of. KMO tests. Further there is the linearity assumption which assumes that the relationship between variables is linear. Linearity can be tested with scatter plots, lastly there is the Homoscedasticity assumption which means that the

variance of errors is the same across all levels of the independent variables, Levene's test of equality of variances across the study variables was used to test for this assumption

The regression model is expressed as below:

$$Y = \alpha + \beta x_1 + \beta x_2 + \beta x_3 + \varepsilon$$

Where,

Y= Dependent variable (dividend payout policy implementation)

X= Independent variables;

X₁ = Company Earnings

X₂ = Firms Growth Opportunities

X₃ = Investment decision

α =constant value

ε = Error term

$\beta x_1, \beta x_2, \beta x_3$ Coefficient of dividend payout policy implementation

3.8. Ethical considerations.

Research ethics are basically a set of principles which guide and assist researchers in conducting ethical studies. Before the researcher went to the field, an introduction letter was sought from Kisii University. Also the researcher asked for consent to undertake the research from the Managers of the financial institutions visited. The letter of permission obtained was shown to each respondent.

Confidentiality means that identity of the respondent is concealed and not revealed to anyone besides the researcher (Johnson & Christensen, 2004). Confidentiality and anonymity are important to avoid connecting the participant with any information that would be embarrassing or harmful. Therefore respondents' identity was not revealed.

CHAPTER FOUR

DATA ANALYSIS PRESENTATION AND INTERPRETATION

4.0 Introduction

This chapter gives details on the background information, data analysis, presentation and interpretation in accordance with stated research questions as outlined in chapter one.

4.1 Response Rate and data screening

From the study data screening was conducted to determine whether data collected reflected the responses from the study participants and whether the questionnaires were properly filled and whether there was exaggerated responses which could distort the actual purpose of the study. Consequently the response rate was conducted for the study. Response rate was important because a higher response rates indicate less of a potential for bias from non-response (Mariolis', 2001).

The study targeted a population of 131 respondents of which a sample of 111 respondents was drawn from the financial institutions listed on the Nairobi Securities Exchange as at 2014/2015, consequently 111 questionnaires were administered to the sampled employees but a total of 97 questionnaires were returned giving a response rate of 87.4%. This response is deemed acceptable based on the consideration by Fowler (2002) who stated that a response rate of between 80 to 85 percent is rated as good. This is further supported by scholar Creswell (2003) who stipulated that a 40% response rate is adequate. This response rate was achieved after the researcher administered the questionnaires and made telephone follow-up calls to remind the respondents to

fill-in and return the questionnaires. The respondents were quite cooperative and the information sought was taken to be a true demonstration of the respondents views due to independence of the study carried out.

Table 4.1: Response Rate

Category	Frequency	Percentage
Distributed	111	100 %
Returned	97	87.4%

4.2 Background Information

Prior embarking to the main objectives of the study, the researcher found it necessary to assess the background information of the respondents. This was done by analyzing the respondents, gender, age and level of experience. The background information was significant to the study as it helped to understand the demographic aspects of different respondents in the study. The responses were presented as follows.

4.2.1 Gender of the Respondents

The study sought to establish the gender representation in the study sample in order to ascertain whether there was gender disparity in data collection and also to balance the views of both genders based on the study objectives. The findings were presented in table 4.1 below.

Table 4.1 Gender of the Respondents

Gender of Respondent	Frequency	Percentage (%)
Male	52	53.6
Female	45	46.4
Total	97	100

As indicated in Table 4.1, majority of the respondents 52 (53.6 %) were male, while 45(46.4%) were female, this implied that the study was not gender biased thus the variations in gender were not so significant to warrant the researcher to assume that the research responses were biased to a given gender. This also indicated that the financial institutions listed in Nairobi Securities Exchange meet the gender rule as stated by the Government of Kenya stating that not more than two-thirds of employees in an organization shall be of the same sex.

4.1.2 Ages of the Respondents

The study sought to find out the respondents' age. Findings were presented in table 4.2

Table 4.2 Ages of Respondents

Variable	Frequency	Percentage (%)
21-25	7	7.3
26-30	17	17.5
31-35	30	30.9
36-40	23	23.7
41-44	11	11.3
45 and above	9	9.3
Total	97	100

As illustrated on table 4.2, Majority of the respondents 30(30.9%) were aged between 31-35 years, 23 (23.7%) were aged between 36-40 years, 11 (11.3%) were aged between 41-44 years, 17(17.5%) were aged between 26-30 years, 9(9.3%) were over 45 years while 7(7.3%) were aged 21-25 years. This implied that majority of the respondents were middle aged and were willing to respond to the study. Also the ages of respondents were relevant to the study since views from people of diverse age categories were obtained.

4.1.3 Level of experience

The study sought to establish the level of experience of the respondents so as to establish whether they had adequate information on the determinants of dividend payout policy implementation. The findings were as presented on Table 4.3:

Table 4.3 Level of experience

No. of Years	Frequency	Percentage %
Less than 5 year	18	18.6
6-10 years	37	38.1
11-15 years	25	25.8
More than 16 years	17	17.5
Total	97	100

Table 4.3 indicates that majority of the respondents 37(38.1%) had an experience of 6-10 years, 25 respondents (25.8%) had an experience of 11-15 years, 18(18.6%) had an experience of less than 5 years and 17 respondents (17.5 %) had experience of over 16 years. The results implied that the respondents have been working with the financial institutions listed in Nairobi securities Exchange and are knowledgeable on issues relating to dividend payout policy implementation.

4.2 Specific Information based on the Objectives of the Study

This section sought to establish the opinions of the respondents in accordance to the specified objectives and has been summarized and presented in tabular form in each category. The study sought to identify the factors determining dividend payout policy implementation by financial institutions listed in the Nairobi Securities Exchange, Study findings were interpreted through regarding responses with mean as close: 5 = strongly agree, 4 = agree, 3 = neutral (not sure), 2 = disagree and 1 = strongly disagree, the evaluation of mean is as shown in the table 4.4 below

Table 4.4 Mean Evaluation

Scale	Evaluation
1.00 -2.49	Very weak
2.50 -3.49	Weak
3.50 -4.49	Strong
4.50 - 5.00	Very strong

Source: Aggresti, *et al* (2009)

4.2.1 Companies Earnings and Dividend Payout Policy Implementation

The researcher sought to investigate how company earnings determine dividend payout implementation of listed financial institutions in Nairobi Securities Exchange. The results were tabulated in table 4.5 as follows;

Table 4.5 Companies Earnings and Dividend Payout Policy Implementation

Companies Earnings and Dividend Payout policy implementation		SA	A	U	D	SD	T	M
Return on equity determines company earnings	F	40	34	14	7	2	97	4.06
	%	41.2	35.1	14.4	7.2	2.1	100	
Market Price Per share determines company earnings	F	37	32	10	5	13	97	3.86
	%	38.1	33.0	10.3	13.4	5.2	100	
Earnings stability determines company earnings	F	46	32	13	5	1	97	4.21
	%	47.4	33.0	13.4	5.2	1.0	100	
Debt ratio corresponds to lower dividends	F	38	45	4	2	8	97	4.12
	%	39.2	46.4	4.1	8.2	2.1	100	
Ratio of total debts to total assets corresponds to higher dividends.	F	44	36	5	3	9	97	4.13
	%	45.4	37.1	5.2	9.3	3.1	100	

From the study Companies Earnings and Dividend Payout policy implementation was captured in Return on equity determines company earnings, Market Price Per share determines company earnings, Earnings stability determines company earnings, Debt ratio corresponds to lower dividends and Ratio of total debts to total assets corresponds to higher dividends.

Regarding the issue whether return on equity determines company earnings, a cumulative total of 76.3% agreed while a cumulative total of 9.3% disagreed this was supported by a mean of 4.06, regarding whether market Price Per share determines company earnings 71.1% Of the respondents agreed while 18.6% disagreed this had a mean of 3.86, further on whether earnings stability determines company earnings majority of the respondents agreed with a cumulative percent of 80.4 and disagreed with a cumulative percent of 6.2% and was supported by a mean of 4.21, further a cumulative percent of 85.6 agreed that Debt ratio corresponds to lower dividends while 10.3% disagreed and was supported by a mean of 4.12, lastly 82.5% of the respondents agreed that ratio of total debts to total assets corresponds to higher dividends with a cumulative percent of 82.5 and 12.4% disagreed this was further supported by a mean of 4.13. These results indicate that majority of the respondents were in agreement that company earnings determine dividend payout policy implementation of listed companies in Nairobi Securities Exchange.

This is supported by Arnott & Asness (2003) who in their study showed that company earnings are directly linked to high dividend payout. They further stated that basing on free cash flow theory, there is a positive relationship between current dividend payout and company earning. Growth of future earnings is increased by discipline and reducing disagreements through choosing investments carefully. Dividend increase is related to future investments for a minimum of two years when there is dividend amendment, whereas dividend reduction is not related to future investments. They propose that this lack of association is explained by accounting ideology. Additionally Nissim & Ziv (2001) indicated that a company whose dividend payout is high gets high future earnings and on the other hand, firms report low earnings in the past in terms of firm's growth. Potential investors and shareholders in a company consider dividends as vital because it shows company earnings to being made in a given period.

4.2.2 Firms Growth Opportunities and Dividend Payout Policy Implementation

The researcher sought to investigate how firm's growth opportunity determines dividend payout policy implementation of listed financial companies in Nairobi Securities Exchange. The results were tabulated in table 4.6 as follows;

Table 4.6 Firms Growth Opportunities and Dividend Payout Policy Implementation

Firms Growth Opportunities and Dividend Payout policy implementation		SA	A	U	D	SD	T	M
Market capitalization is a determinant of firm's growth opportunities	F	40	33	5	7	12	97	3.85
	%	41.2	34.0	5.2	7.2	12.4	100	
Dividend turnover plays a role in determining the growth of the firm	F	46	33	4	4	10	97	4.10
	%	47.4	34.0	4.1	10.3	4.1	100	
Diversification of products determines firms growth opportunities	F	54	30	6	4	3	97	4.32
	%	55.7	30.9	6.2	3.1	4.1	100	
Market capitalization expands a company's dividends	F	44	36	5	9	3	97	4.12
	%	45.4	37.1	5.2	9.3	3.1	100	
Firm's payout ratio determines the amount of dividends to be paid	F	31	40	6	7	13	97	3.71
	%	32.0	41.2	6.2	7.2	13.4	100	
Dividend payout policy increases company's diversification of products	F	38	39	13	7	0.0	97	4.05
	%	39.2	40.2	7.2	13.4	0.0	100	

From the study findings on whether growth opportunity determines dividend payout implementation of listed financial institutions in Nairobi Securities Exchange, the responses was captured in market capitalization is a determinant of firm's growth opportunities, dividend turnover plays a role in determining the growth of the firm, diversification of products determines firms growth opportunities, market capitalization expands a company's dividends, Firm's payout ratio determines the amount of dividends to be paid and dividend payout policy increases company's diversification of products.

Regarding the issue whether market capitalization is a determinant of firm's growth opportunities, a cumulative total of 75.2% agreed while a cumulative total of 19.6% disagreed. This was supported by a mean of 3.85, regarding whether dividend turnover plays a role in determining the growth of the firm 81.4% of the respondents agreed while 14.4% disagreed this had a mean of 4.10, also on whether diversification of products determines firms growth opportunities 86.6% agreed while 7.2% disagreed and had a mean of 4.32, further on whether market capitalization expands a company's dividends majority of the respondents agreed with a cumulative percent of 82.5 and disagreed with a cumulative percent of 12.4% and was supported by a mean of 4.20, furthermore a cumulative percent of 73.2% agreed that firm's payout ratio determines the amount of dividends to be paid while 20.6% disagreed and was supported by a mean of 3.71, lastly 79.4% of the respondents agreed that dividend payout policy increases company's diversification of products and 7.2% disagreed this was further supported by a mean of 4.05. These results indicate that most of the respondents agreed that growth opportunities determine dividend payout policy implementation of listed companies in Nairobi Securities Exchange.

These findings were supported by Myers & Majluf (1984) as cited in Ndungu (2009) who postulated that firms that have high investment opportunities rather pay higher dividends. Nonetheless, Al-Shubiri (2011) noted that dividends have been used to signal the general public about a company's stability and growth prospects; the dividend policy adopted by a company influences its capital structure specifically the residual dividend policy which requires that a firm pays dividends if profitable investment opportunities are unavailable and a company's stock price is also affected by the dividend pattern too. A company with growth opportunities as long as these are profitable, will pay fewer dividends and will instead not pay securities dividends as it will be pre-occupied with retention for ploughing back of such money to finance viable ventures. Further Gill *et al.* (2010) contradicted this statement as he asserted that investment opportunity is not an important factor influencing dividend payout decisions.

4.2.3 Investment Decisions and Dividend Payout Policy Implementation

The researcher sought to investigate how investment decisions determine dividend payout policy implementation of listed financial institutions in Nairobi Securities Exchange. The results were tabulated in table 4.7 as follows;

Table 4.7 Investment Decisions and Dividend Payout Policy Implementation

Investment Decisions and Dividend Payout Policy implementation		SA	A	U	D	SD	T	M
Inflation rates determines investment decision	F	28	43	6	7	13	97	3.68
	%	28.9	44.3	6.2	7.2	13.4	100	
Earnings per share is a determinant of investment decision	F	33	42	7	11	4	97	3.92
	%	34.0	43.3	7.2	11.3	4.1	100	
Return on capital is employed in our organization	F	47	29	14	5	2	97	4.18
	%	48.5	29.9	14.4	5.2	2.1	100	
Return on shareholders' Funds is adequate in our organization	F	35	46	4	9	3	97	4.04
	%	36.1	47.4	4.1	9.3	3.1	100	
Shareholder's wealth is maximized through effective investment methods	F	31	40	6	7	13	97	3.71
	%	32.0	41.2	6.2	7.2	13.4	100	
Change of investment choices alters dividend payout policy	F	38	39	7	13	0.0	97	4.05
	%	39.2	40.2	7.2	13.4	0.0	100	

From the study findings on whether investment decisions determine dividend payout policy implementation of listed financial institutions in Nairobi Securities Exchange as indicated in table 4.7, the responses were captured in inflation rates determines investment decision, earnings per share is a determinant of investment decision, return on capital is employed in our organization, return on shareholders' Funds is adequate in our organization, shareholder's wealth is maximized through effective investment methods and change of investment choices alters dividend payout policy.

Regarding the issue whether inflation rates determines investment decision, a cumulative total of 73.2% agreed while a cumulative total of 20.6% disagreed. This was supported by a mean of 3.68, regarding whether earnings per share is a determinant of investment decision 77.3% of the respondents agreed while 15.4% disagreed this had a mean of 3.92, also on whether return on capital is employed in our organization 78.4% agreed while 7.3% disagreed and had a mean of 4.18, further on whether return on shareholders' Funds is adequate in our organization majority of the respondents agreed with a cumulative percent of 83.5 and disagreed with a cumulative percent of 12.4% and was supported by a mean of 4.04, furthermore a cumulative percent of 73.2% agreed that shareholders wealth is maximized through effective investment decisions while 20.6% disagreed and was supported by a mean of 3.71, lastly 79.4% of the respondents agreed that change of investment choices alters dividend policy and 13.4% disagreed this was further supported by a mean of 4.05, this implies that investment decisions determine dividend payout policy implementation of listed financial institutions in Nairobi Securities Exchange

These findings are supported by Dhanani (2003) who postulated that a firm's dividend policy will influence its capital structure or investment choices and successively enhance the firm's

value to shareholders. Wealth of shareholders is increased via effective investment methods, supported by an optimum capital structure. Financial managers thus cannot alter the investment choices of their companies by ever-changing their dividend payout policy.

Further Aivazian *et al.* (2003) posits that since company investment is sensitive to monetary constraints, a firm's dividend choices that directly affect its free income may have an effect on its investment. This arises once a firm's dividend policy is seen as a outstanding to its structure of capital and selection of investments ; internally created cash flows from current investment is going to be used to optimize the firm's capital structure and future capital decisions on investment and additional goes to shareholders as dividends.

4.2.4 Dividend Payout Policy Implementation

The researcher sought to investigate the determinants of dividend payout policy implementation of listed financial institutions in Nairobi Securities Exchange. The results were tabulated in table 4.8 as follows;

Table 4.8 Dividend Payout Policy Implementation

Dividend Payout Policy Implementation		SA	A	U	D	SD	T	M
Dividend Payout Policy implementation determines what proportion of the earnings ought to be invested to ensure increased profitability	F	35	37	5	8	12	97	3.77
	%	36.1	38.1	5.2	8.2	12.4	100	
Dividend Payout Policy implementation determines which percentage of the earnings should be given to investors in form of dividends	F	41	34	10	1	2	97	4.05
	%	42.3	35.1	10.3	10.3	2.1	100	
Dividend Payout Policy implementation indicates predictable earnings to investors and thus, makes the company a good investment	F	55	26	11	4	1	97	4.34
	%	56.7	26.8	11.3	4.1	1.0	100	
Dividend Payout Policy implementation gives a strong signal about the future prospects of the company	F	46	36	4	9	2	97	4.19
	%	47.4	37.1	4.1	9.3	2.1	100	

The determinants of dividend payout policy implementation of listed financial institutions in Nairobi Securities Exchange was captured through the four items, namely: Dividend Payout Policy implementation determines what proportion of the earnings ought to be invested to ensure increased profitability, Dividend Payout Policy implementation determines which percentage of

the earnings should be given to investors in form of dividends, dividend Payout Policy implementation indicates predictable earnings to investors and thus, makes the company a good investment and dividend Payout Policy implementation gives a clear indication about the company's future prospects.

Regarding dividend Payout Policy implementation determines what proportion of the earnings ought to be invested to ensure increased profitability, a cumulative total of 74.2% agreed while a cumulative total of 20.6% disagreed and was supported by a mean of 3.77. Regarding whether dividend Payout Policy implementation determines which percentage of the earnings should be given to investors in form of dividends, a cumulative total of 12.4% disagreed while a cumulative total of 77.4% agreed and this had a mean of 4.05. In the case of whether or not dividend Payout Policy implementation indicates predictable earnings to investors and thus, makes the company a good investment, a cumulative total of 5.1% disagreed while a cumulative total of 83.5% agreed and was supported by a mean of 4.34. As to whether or not dividend Payout Policy implementation gives a clear signal on the company's future prospects, a cumulative total of 11.4% disagreed while a cumulative total of 84.5% agreed with a mean of 4.19. From these results, it is clear that the proportion of agreements to the item is bigger than the proportion of disagreements. This indicates that most of the respondents agreed on the determinants of dividend payout policy implementation of listed financial institutions in Nairobi Securities Exchange.

This findings indicate that Dividend payout policy implementation is taken to be one of the most vital financial decisions that corporate manager's encounter, Lintner (2001) agrees to this as he contends that dividend decision is very important to the investors and firms. It is the choice of company's management that determines what proportion of the earnings ought to be invested

and which percentage should be given to investors in form of dividends. In making this decision the management ought to put into consideration the availability of investment opportunities that will increase future returns and if such opportunities do not seem to be attainable the management ought to distribute the earnings to shareholders. Further Al-Shubiri, (2011) stated that dividends are necessary for investors as dividends are thought to be a signal of company's monetary well-being. Dividends also assist in maintaining the market value of the corporation's share. Companies with a history of payment of stable dividends may be affected negatively by decreasing dividends. Similarly firms that have not paid dividends would be viewed favorably after they would pay dividends.

4.3 Inferential Statistics

The study employed inferential statistics which include; Pearson's correlations and multiple regressions. Factor analysis will be employed to reduce the independent variables in the regression model to a smaller set of uncorrelated factor scores. To ascertain whether there is existing relationship between the variables correlation analysis was done. On the other hand multiple regressions were used to test the hypothesis to estimate the coefficients of linear equations, with one or more independent variables and thus predicting the value of the dependent variable.

4.3.1 Factor analysis

From the study factor analysis was conducted in order to explore a content area, map unknown variables of the study, classify and reduce data and illuminate causal nexuses of the study variables. Kaiser-Meyer-Olkin used to measure Sampling Adequacy along with the Bartlett's Test of Sphericity. Sampling Adequacy of Kaiser-Meyer-Olkin Measure ranges between 0 and 1,

figures nearer to 1 are better. On the other hand, Test of Sphericity proves null hypothesis on the fact that correlation matrix and identity matrix are similar.

4.3.1.1 Factor Analysis Results of company earnings

From the study factor analysis was conducted for the 5 items for company earnings and were sorted and clustered into the Kaiser-Meyer-Olkin (KMO) used to measure sampling adequacy and Barlett's Test of Sphericity. The KMO used in measuring sampling adequacy indicated a value of (KMO=0.635) thus the sample size was adequate. The Barlett's Test of Sphericity was significant $X^2=182.058$, $df = 10$, $p<0.000$, implying that the factor analysis was appropriate for the research and a relationship existed between variables. The results of the principal component analysis indicate that, two factors whose Eigenvalues exceed 1 exist. The amount of total variance of a factor is explained by Eigenvalue. Company earnings, the first factor has Eigenvalue of 2.468 and the second factor has Eigenvalue of 1.168, the two factors explain 72.728% of the total variance. The first factor explains 49.368% of this variance, while the second variable explained 23.359% of this variance. The results are presented in Table 4.9.

Table 4.9 KMO and Bartlett's Test of company earnings

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.635
Bartlett's Test of Sphericity	Approx. Chi-Square	182.058
	Df	10
	Sig.	.000
%Of variance		Initial Eigenvalues
1	49.368	2.468
2	23.359	1.168

4.3.1.2 Factor Analysis Results of firms growth opportunities

Further factor analysis for growth opportunities was conducted for the 6 items and were sorted and clustered into the Kaiser-Meyer-Olkin (KMO) used to measure sampling adequacy and Bartlett's Test for Sphericity. KMO measure of sampling adequacy indicated a value of (KMO=0.649) indicating that the sample size was adequate for the variables analyzed. The Bartlett's Test of Sphericity was significant $X^2=192.567$, $df = 15$, $p=0.000$, implying that the factor analysis was appropriate for the research a relationship existed between the variables. The results of the principal component analysis indicate that there exists two factors whose Eigenvalues exceed 1. For firms' growth opportunities, the first factor has Eigenvalue of 2.468 and the second factor has Eigenvalue of 1.168, the two factors explain 61.873% of the total variance. The first factor explains 41.469% of this variance, while the second variable explained 20.404% of this variance. The results are presented in Table 4.10.

Table 4.10 KMO and Bartlett's Test of firms growth opportunities

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.649
Bartlett's Test of Sphericity	Approx. Chi-Square	192.567
	Df	15
	Sig.	.000
% of variance		Initial Eigenvalues
1	41.469	2.488
2	20.404	1.224

4.3.1.3 Factor Analysis Results of Investment decisions

Further factor analysis for Investment decisions was also conducted for the 6 items and were sorted and clustered into the Kaiser-Meyer-Olkin (KMO) used to measure sampling adequacy and Barlett's Test of Sphericity. The KMO measure of sampling adequacy indicated a value of (KMO=0.763) thus the sample size was sufficient for the variables analyzed. The Barlett's Test of Sphericity was significant $X^2=260.347$, $df = 15$, $p=0.000$, implying that the factor analysis was sufficient for the study and a positive relationship existed between the variables. Results of principal component analysis indicate that only one factor has Eigenvalues exceeding 1. Further, a factor's Eigenvalue represents the amount of total variance explained by that factor. This factor has Eigenvalue of 3.130 and explains 52.169% of this variance. The results are presented in Table 4.11.

Table 4.11 KMO and Bartlett's Test of Investment decisions

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.763
Bartlett's Test of Sphericity	Approx. Chi-Square	260.347
	Df	15
	Sig.	.000
% of variance		Initial Eigenvalues
1	52.169	3.130

4.3.1.4 Factor Analysis Results of dividend payout policy implementation

Lastly number of factors to extract for analysis of dividend payout policy implementation was got through use of Kaiser Criterion. Results showed that the 4 items are sorted and clustered into

one component. The Kaiser-Meyer-Olkin used to measure adequacy in sampling and Barlett's Test of Sphericity was factored. The KMO indicated a value of (KMO=0.355) indicating that the sample size was adequate for the variables analyzed besides, Barlett's Test of Sphericity was significant $X^2=175.226, df=6, p=0.000$, implying that the analysis of factor was suitable for the research and there existed a relationship between the variables for dividend payout policy implementation. From Table 4.12, principal component analysis results show that exists two factors whose Eigenvalues exceed 1. The Eigenvalue of the first factor has Eigenvalue of 1.712 and the second factor has Eigenvalue of 1.117, the two factors explain 70.725% of the total variance. The first factor explains 42.809% of this variance, while the second variable explained 27.916% of this variance.

Table 4.12 KMO and Bartlett's Test dividend payout policy implementation

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.455
Bartlett's Test of Sphericity	Approx. Chi-Square	75.226
	Df	6
	Sig.	.000
% of variance		Initial Eigenvalues
1	42.809	1.712
2	27.916	1.117

4.3.1 Correlations

The relationship between the variables was calculated through use of Pearson correlation. The measures were constructed using added scales that were from the independent and dependent variables. The decision rule for correlation was in accordance to Saunders (2003) who postulated that that $r=1$ shows a Perfect linear correlation, $0.9 < r < 1$ indicates Positive strong correlation,

0.7 < r < 0.9 Positive high correlation 0.5 < r < 0.7 Positive moderate correlation, 0 < r < 0.5 Weak correlation r=0 No, relationship and -1 < r = < 0 Negative relationship

From the study the results indicate that all the study variables had positive high correlation to dividend payout implementation, this was indicated by investment decision r=0.799 and the p-value is .000, company earnings r=0.836 and the p-value is .000 and growth opportunities r=0.882 and the p-value is .000.

Table 4.13 Correlation Coefficients

		Investment decisions	Company earnings	Growth opportunities	Dividend payout policy implementation
Investment decisions	Pearson Correlation	1	.733**	.727**	.799**
	Sig. (2-tailed)		.000	.000	.000
	N	97	97	97	97
Company earnings	Pearson Correlation	.733**	1	.807**	.836**
	Sig. (2-tailed)	.000		.000	.000
	N	97	97	97	97
Growth opportunities	Pearson Correlation	.727**	.807**	1	.882**
	Sig. (2-tailed)	.000	.000		.000
	N	97	97	97	97
Dividend payout policy implementation	Pearson Correlation	.799**	.836**	.882**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	97	97	97	97

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

4.3.2 Regression Analysis

4.3.2.1 Tests for Regression Analysis Assumptions

4.3.2.1.1 Normality Test

Kolmogorov-Smirnov test (K-S) was used to compare the shapes of the data distribution to the shape of the normal curve and assumption of the normality of the study population distribution. The Kolmogorov-Smirnov was computed to enable compare cumulative distribution function for the variables of interest. The results for K-S tests was done on the study variables namely; company earnings, growth opportunities, investment decisions and dividend payout policy implementation. When the value of significance of the Shapiro-Wilk Test is noted less than 0.05, the data is normal. If it is greater than 0.05, the data highly vary from the normal distribution. The tests revealed that the data used in this study is normally distributed and hence can be subjected to other statistical tests of significance which test the link between dependent and independent variables that require normally distributed data. This is shown in table 4.14 below.

Table 4.14 Normality Tests

		Investment decisions	Company earnings	Growth opportunities	Dividend payout policy implementation
N		97	97	97	97
Normal Parameters ^{a,b}	Mean	4.02	4.06	4.10	4.09
	Std. Deviation	.716	.725	.686	.689
Most Extreme Differences	Absolute	.216	.200	.186	.213
	Positive	.132	.130	.119	.100
	Negative	-.216	-.200	-.186	-.213
Kolmogorov-Smirnov Z		2.127	1.972	1.827	2.097
Asymp. Sig. (2-tailed)		.000	.001	.003	.000

a. From the data normal Test distribution was noted.

4.3 2.1.2. Testing of the Assumption of Linearity

From the study test of assumption of linearity was done using the Pearson product moment Correlation, this was done to assess the relationships between the variables in a linear way. The results in table 4.15 below indicate that there was positive relationship between company earnings, growth opportunities, investment decisions and dividend payout policy implementation thus assumption of linearity was supported.

Table 4.16 Testing of the Assumption of Linearity

		Investment decisions	Company earnings	Growth opportunities	Dividend payout policy implementation
Investment decisions	Pearson	1			
	Correlation			.	
Company earnings	Pearson	.733**	1		
	Correlation				
Growth opportunities	Pearson	.727**	.807**	1	*
	Correlation				
Dividend Payout policy implementation	Pearson	.799**	.836**	.882**	1
	Correlation				

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

4.3.2.1.3 Testing of the Assumption of Homoscedasticity

Homoscedasticity of variances was tested using levene's test of equality of variances across the study variables. This study tested the assumption that the variance of company earnings, growth opportunities, investment decisions and dividend payout policy implementation in the study was the same. The desired outcome of this test to reject the assumption which would lead to a conclusion that the variances of the study variables are the same, the result will be significant if the resulting p-value of Levene's test is less than 0.05. Thus, the null hypothesis of equal variances is rejected therefore; it is resolute that there exists difference among the variances in

the study variables. The results showed that the alpha level of company earnings ($p=0.00$), growth opportunities ($p=0.00$), investment decisions ($p=0.00$) and dividend payout policy implementation ($p=0.00$) were significant because their significance level was less than 0.05. It was therefore concluded that homogeneity of variances was supported. The results are shown in table 4.17 below

Table 4.17 Assumption of Homoscedasticity

	Test Value = 0					
	t	df	Sig.	(2- Mean	95% Confidence Interval of	
			tailed)	Difference	the Difference	
					Lower	Upper
Investment decisions	55.228	96	.000	4.015	3.87	4.16
Company .earnings	55.155	96	.000	4.062	3.92	4.21
Growth opportunities	58.823	96	.000	4.098	3.96	4.24
Dividend payout policy implementation	58.543	96	.000	4.095	3.96	4.23

4.3.3 Hypothesis Testing

From the study a multiple linear regression model made use of scrutinize the three study hypotheses which examine the direct and indirect effects of company earnings, growth opportunities and investment decisions on dividend payout policy implementation. Hypothesis testing was done with a significance level of 0.05, such that when the significance value is less than the 0.05 the null hypothesis is rejected and when it is above 0.05 it is accepted. This is discussed in the section that follows:

4.3.3.1 Investment decisions and Dividend payout policy implementation

The first study hypothesis indicated that significant relationship does not exist between investment decisions and dividend payout policy implementation of listed financial companies. The relationship between the independent variables (investment decisions) and dependent variable (Dividend payout policy implementation) was tested through use of a simple regression model. As shown below

Table 4.18 Model Summary of investment decisions and Dividend payout policy implementation

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.799 ^a	.638	.634	.417

a. Predictors: (Constant), investment...decisions

From the results on model summary R= 0.799, R- square = 0.638, adjusted R- square= 0.634, and the SE= 0.417. Multiple correlation R coefficients indicate the degree of linear relationship of Dividend payout policy implementation with the predictor variables investment decisions, whereas the coefficient of multiple determinations R-square shows the provision of the total

variation in Dividend payout policy implementation that is explained by the independent variables investment decisions in the regression equation. The R-square gives us the coefficient of determination between the variables the results from the regression analysis give an R-square value of 0.638, which means that 63.8% of the independent variable (investment decision) cause the change on dependent variable (Dividend payout policy implementation)

Table 4.19 ANOVA of investment decisions and Dividend payout policy implementation

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	29.051	1	29.051	167.271	.000 ^b
	Residual	16.499	95	.174		
	Total	45.550	96			

a. Dependent Variable: implementation

b. Predictors: (Constant), investment...decisions

The significance of the regression model was tested using Analysis of Variance (ANOVA). Table 4.19 presents the results of this test, where, $F= 167.271$, $p=0.000$. From the study the significance value is 0.000 which below 0.05 thus the model is statistically significant in predicting how investment decisions affect dividend payout policy implementation. The F value of 167.271 indicates that all the variables in the equation are important hence the overall regression is significant, this shows that the model was significant

Table 4.20 Coefficients investment decisions and Dividend payout policy implementation

Model	Unstandardized		Standardized	T	Sig.
	Coefficients		Coefficients		
	B	Std. Error	Beta		
(Constant)	1.010	.242		4.169	.000
1 investment...decision s	.768	.059	.799	12.933	.000

a. Dependent Variable: implementation

Results from the regression model above indicated that there was a significant relationship ($p = 0.000$) between investment decisions and dividend payout policy implementation of financial institutions listed in the Nairobi Securities Exchange. This was interpreted to mean that dividend payout policy implementation can influence a firm's capital structure or investment decisions and therefore enhance the firm's value to shareholders. These findings concur (Dhanani, 2005) who states that dividend policy can be viewed as a result of the investment and financing decisions because the firm needs to decide how to distribute wealth generated from these strategies. The relationship can also be reverse, where a firm's capital investment is influenced by dividend policy and structure decisions and in turn its value enhancing properties.

4.3.3.2 Company earnings and Dividend payout policy implementation

The second study hypothesis stated that there is no significant relationship existing amongst company's earnings and dividend payout implementation of financial companies listed financial companies. A simple regression model was used to test for the relationship between the

independent variables (company earnings) and dependent variable (Dividend payout policy implementation). As shown below

Table 4.21 Model Summary of Company earnings and Dividend payout policy implementation

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1				
1	.836 ^a	.699	.696	.380

a. Predictors: (Constant), company...earnings

From the results on model summary R= 0.836, R- square = 0.699, adjusted R- square= 0.696, and the SE= 0.380. Multiple regression R coefficients show the extent of linear relationship of Dividend payout policy implementation with the predictor variables company earnings, whereas the coefficient of multiple determinations R-square shows the provision of the total variation in Dividend payout policy implementation that is explained by the independent variables company earnings in the regression equation. The R-square gives us the coefficient of determination between the variables the results from the regression analysis give an R-square value of 0.699, which means that 69.9% of the independent variable (company earnings) cause the change on dependent variable (Dividend payout policy implementation)

Table 4.22 ANOVA Company earnings and Dividend payout policy implementation

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	31.839	1	31.839	220.593	.000 ^b
1	Residual	13.712	95	.144		
	Total	45.550	96			

a. Dependent Variable: dividend payout policy implementation

b. Predictors: (Constant), company...earnings

ANOVA was used to test the significance of the regression model. Table 4.22 presents the results of this test, whereby, $F = 220.593$, $p = 0.000$. From the study the significant value is 0.000 which is lower than 0.05 indicating that the model is statistically significance in predicting how company earnings affect dividend payout policy implementation. The F value of 220.593 indicating that the equation variables are important hence the overall regression is significant, this shows that the model was significant

Table 4.23 Coefficientsof Company earnings and Dividend payout policy implementation

Model		Unstandardized Coefficients	Std. Error	Standardized Coefficients	T	Sig.
		B		Beta		
1	(Constant)	.869	.221		3.942	.000
	Company earnings	.794	.053	.836	14.852	.000

a. Dependent Variable: dividend payout policy implementation

Results from the regression model above also indicated there is a significant relationship ($p = 0.000$) between company earnings and dividend payout policy implementation. The findings implied that dividend policies are important to potential investors and shareholders in identifying the earnings that a company is generating. These findings are in agreement with Nissim. & Ziv. (2001) who revealed that high dividend payout firms experience high future earnings nevertheless, their low past growth of earnings inspite of market observers having a reversing opinion. Scholar Arnott & Asness's (2003) study findings revealed that company earnings are associated with high rather than low dividend payout.

4.3.3.3 Growth opportunities and Dividend payout policy implementation

The third hypothesis indicated that the relationship between firm's growth opportunities and dividend payout policy implementation of listed financial companies does not exist. A simple regression model was used to test for the relationship between the independent variables (growth opportunities) and dependent variable (Dividend payout policy implementation). As shown below

Table 4.24 Model Summary of Growth opportunities and Dividend payout policy implementation

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.882 ^a	.778	.776	.326

a. Predictors: (Constant), growth opportunities

From the results on model summary $R = 0.882$, $R\text{-square} = 0.778$, $\text{adjusted } R\text{-square} = 0.776$, and the $SE = 0.326$. Multiple correlation R coefficients indicate the degree of linear relationship

of Dividend payout policy implementation with the predictor variables growth opportunities, whereas the coefficient of multiple determinations R-square shows the provision of the total variation in Dividend payout policy implementation that is explained by the independent variables growth opportunities in the regression equation. The R-square gives us the coefficient of determination between the variables. The study results from the regression analysis give an R-square value of 0.778, which means that 77.8% of the independent variable (growth opportunities) cause the change on the dependent variable (Dividend payout policy implementation)

Table 4.25 ANOVA of Growth opportunities and Dividend payout policy implementation

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	35.436	1	35.436	332.832	.000 ^b
	Residual	10.114	95	.106		
	Total	45.550	96			

a. Dependent Variable: Dividendpayout policy implementation

b. Predictors: (Constant), growth opportunities

Regression model's significance was tested using Analysis of Variance (ANOVA). Whereby, F= 332.832, p=0.000. From the study, the significance value is 0.000 which is less than 0.05 indicating that the model is statistically noteworthy in predicting how company earnings affect dividend payout policy implementation. The F value of 332.832 indicating that all equation

variables are important therefore the overall regression is significant, this shows that the model was significant.

Table 4.26 Coefficients of Growth opportunities and Dividendpayout policy implementation

Model	Unstandardized		Standardized	t	Sig.
	Coefficients				
	B	Std. Error	Beta		
(Constant)	.466	.202		2.310	.023
1 Growth opportunities	.885	.049	.882	18.244	.000

a. Dependent Variable: dividend payout policy implementation

Lastly the results however indicated that there was a relationship that was significant ($p= 0.000$) between growth opportunities and dividend payout policy implementation. This was interpreted to mean that Dividend payout policy implimentation is therefore considered to be an important financial decision. A firm having an increase in investment tends to limit dividend payment to reserve internal finance for its investment. These findings are in agreement Anil and Kapoor (2008), who opines that growth opportunities indicate the positive sign of ongoing firms' operations. Increasing level of company's growth in a consistent manner means that a firm potentially enters into stage of expansion of business cycle and would expect positive cash earning power in the future year.

4.3.3.4 Overall Regression coefficient

The relationship between the independent variables (investment decisions, company earnings and growth opportunities) on the dependent variable (dividend payout policy implementation) was tested through use of simple regression model. The results are shown in the output tables below;

Table 4.27 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.922 ^a	.849	.845	.272

a. Predictors: (Constant), growth opportunities, investment decisions, company earnings

From the results on model summary $R = 0.922$, $R\text{-square} = 0.849$, $\text{adjusted } R\text{-square} = 0.845$, and the $SE = 0.272$. Multiple correlation R coefficients indicate the degree of linear relationship of Dividend payout policy implementation with the predictor variables growth opportunities, investment decisions and company earnings, whereas the coefficient of multiple determinations $R\text{-square}$ shows the provision of the total variation in Dividend payout policy implementation that is explained by the independent variables (growth opportunities, investment decisions and company earnings) in the regression equation. The $R\text{-square}$ gives the coefficient of determination between the study variables. The regression analysis gives an $R\text{-square}$ value of 0.849, which means that 84.9% of the independent variables (growth opportunities, investment decisions and company earnings) cause the change on the dependent variable (Dividend payout policy implementation)

Table 4.28 ANOVA^a

Model	Sum of Squares	Df	Mean Square	F	Sig.	
1	Regression	38.689	3	12.896	174.808	.000 ^b
	Residual	6.861	93	.074		
	Total	45.550	96			

a. Dependent Variable: dividend payout policy implementation

b. Predictors: (Constant), growth opportunities, investment decisions, company. Earnings

Analysis of Variance (ANOVA) helped to test the significance of the regression model. Table 4.22 presents the results of this test, whereby, $F = 174.808$, $p = 0.000$. The significance value is 0.000 that is lower than 0.05 hence statistically the model is significant in predicting how company earnings affect dividend payout policy implementation. The F value of 174.808 indicates that equation values are vital hence this shows that the model was significant.

Table 4.29 Coefficients of growth opportunities, investment decisions, company. Earnings and dividend payout policy implementation

Model	Unstandardized		Standardized	t	Sig.
	Coefficients				
	B	Std. Error	Beta		
(Constant)	.108	.177		.611	.543
Investment decisions	.247	.060	.257	4.082	.000
1 Company earnings	.237	.069	.249	3.415	.001
Growth Opportunities	.496	.073	.494	6.835	.000

a. Dependent Variable: dividend payout policy implementation

The results show that the regression weights of three of the independent variables were significant. This means that all the postulated hypotheses were not supported. Thus investment decisions, company earnings and growth opportunities are predictor variables for dividend payout policy implementation. The standardized coefficients indicate the corresponding change in the dependent variable when a change of one unit is effected in the independent variable. Thus, a 1% improvement of investment decisions will lead to a 24.7% change in dividend payout policy implementation; a 1% improvement of company earnings would lead to a 23.7% change in dividend payout policy implementation, and a 1% improvement in growth opportunities would result in a 49.6% improvement in dividend payout policy implementation. Besides, the magnitude of the t values indicates growth opportunities (t=6.835) is the main predictor variable for dividend payout policy implementation. This is followed by company earnings (t=4.082) and finally investment decisions (t= 3.415).

Table 4.29 above shows the regression coefficients of the independent variables growth opportunities, investment decisions and company earnings are statistically significant in explaining dividend payout policy implementation. Thus the regression equation becomes;

$$Y = 0.108 + 0.247X_1 + 0.237X_2 + 0.496X_3$$

Whereby Y = Dividend payout policy implementation

X₁ = Investment decisions

X₂ = Company earnings

X₃ = Growth opportunities

Table 4.30 Summary of Results for Hypotheses Testing

Hypotheses Statement	Result
H ₀₁ . There is no significant relationship between investment decisions and dividend payout policy implementation of listed financial companies.	H ₀₁ rejected (β = 0.247, p = 0.000).
H ₀₂ . There is no significant relationship between company's earnings and dividend payout implementation of financial companies listed.	H ₀₂ rejected (β = 0.237, p = 0.001).
H ₀₃ . There is no significant relationship between firm's growth opportunities and dividend payout policy implementation of listed financial companies.	H ₀₃ rejected (β = 0.496, p = 0.000).

CHAPTER FIVE:

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of the findings

The findings of this study are summarized here with a view to crystallize the key findings in relation to the research objectives.

5.1.1 Companies Earnings and Dividend Payout Policy Implementation

From the study, it was indicated that there is a significant relationship between Companies Earnings and Dividend Payout policy implementation of listed financial institutions in Eldoret town, this was explained by Return on equity determining company earnings, Market Price Per share, Earnings stability and Debt ratio which corresponds to lower dividends and Ratio of total debts to total assets corresponds to higher dividends.

This is supported by Arnott & Asness (2003) who in their study showed that company earnings are directly linked to high dividend payout. Further Arnott & Asness (2003) stated that basing on free cash flow theory, there is a positive relationship between current dividend payout and company earning. Growth of future earnings is increased by discipline and reducing disagreements through choosing investments carefully. Dividend increase is related to future investments for a minimum of two years when the dividend amendment is made, whereas dividend reduction is not related to future investments. They propose that this lack of association is explained by accounting ideology. Additionally Nissim & Ziv (2001) indicated that a company whose dividend payout is high gets high future earnings and on the other hand, firms report low earnings in the past in terms of firm's growth. Potential investors and shareholders in a company

consider dividends as vital because it shows company earnings to being made in a given period and also future growth.

5.1.2 Firms Growth Opportunities and Dividend Payout Policy Implementation

From the study findings it was indicated that there exists a significant relationship between growth opportunity and dividend payout policy implementation of listed companies in Nairobi Securities Exchange, the findings were captured in market capitalization as a determinant of firm's growth opportunities, dividend turnover plays a role in determining the growth of the firm, diversification of products determines firms growth opportunities, market capitalization expands a company's dividends, also firm's payout ratio determines the amount of dividends to be paid besides dividend payout policy increases company's diversification of products. These findings indicated that most of the respondents agreed that growth opportunities determine dividend payout policy implementation of listed companies in Nairobi Securities Exchange.

These findings were supported by Myers & Majluf (1984) as cited in Ndungu (2009) who postulated that firms which have high investment opportunities rather pay higher dividends. Nonetheless, Al-Shubiri (2011) noted that dividends have been used to signal the general public about a company's stability and growth prospects; the dividend policy adopted by a company influences its capital structure specifically the residual dividend policy which requires that a firm pays dividends when investment opportunities with profitability are not available and a company's stock price is also affected by the dividend pattern. A company will grow from investments as long as these are profitable, will pay fewer dividends and will instead pay securities dividends as it will be pre-occupied with retention for ploughing back of such money

to finance viable ventures. Further Gill *et al.* (2010) contradicted this statement as he asserted that investment opportunity is not an important factor influencing dividend payout decisions

5.1.3 Investment Decisions and Dividend Payout Policy Implementation

From the study findings indicated that there is a significant relationship between investment decisions and dividend payout policy implementation of listed financial institutions in Nairobi Securities Exchange, the findings were captured in inflation rates as a determinant of investment decision, earnings per share is a determinant of investment decision, return on capital is employed in our organization, return on shareholders' funds are adequate in our organization, wealth of shareholders is maximized through effective investment methods and change of investment choices alters dividend payout policy. This implied that investment decisions determine dividend payout policy implementation of listed companies in Nairobi Securities Exchange

These findings are supported by Dhanani (2003) who postulated that a firm's dividend policy will influence its structure of capital or choice of investment and successively enhance the firm's value to shareholders. Wealth of shareholders is increased via effective investment methods, supported by an optimum capital structure. Financial managers thus cannot alter the investment choices of their companies by ever-changing their dividend payout policy.

Further Aivazian *et al.* (2003) posits that since company investment is sensitive to monetary constraints, a firm's dividend choices that directly affect its free income may have an effect on its investment. This arises once a firm's dividend policy is viewed as a residual to its investments elections and capital structure; internally created cash flows from current investment is going to

be used to optimize the firm's capital structure and future capital decisions on investment and additional goes to shareholders as dividends.

5.1.4 Dividend Payout Policy Implementation

The findings on the determinants of dividend payout policy implementation of listed financial institutions in Nairobi Securities Exchange indicated that dividend Payout Policy implementation determines what proportion of the earnings ought to be invested to ensure increased profitability, it determines which percentage of the earnings should be given to investors in form of dividends, dividend Payout Policy implementation indicates earnings that are predictable to investors makes the company a good investment and therefore dividend Payout Policy implementation gives a clear indication about the company's future prospects.

This finding indicates that Dividend payout policy implementation is factored to be one of the most vital financial decisions that corporate manager's need to make. Lintner (2001) agrees to this as he contends that dividend decision is very important to the investors and firms. It is the choice of company's management that determines what proportion of the earnings ought to be invested and which percentage should be given to investors in form of dividends. In making this decision the management ought to put into consideration the availability of investment opportunities that will increase future returns and if such opportunities do not seem to be attainable the management ought to distribute the earnings to shareholders. Further Al-Shubiri, (2011) stated that dividends are necessary for investors as dividends are thought to be a signal of company's monetary well-being. Dividends also assist in maintaining the market value of the corporation's share. Companies with a history of payment of stable dividends may be affected

negatively by decreasing dividends. Similarly firms that have not paid dividends would be viewed favorably after they would pay dividends.

5.3 Conclusions

The study concluded that company earnings determine dividend payout policy implementation of listed financial institutions in the Nairobi securities exchange, it was also concluded that return on equity determines company earnings, Market Price Per share determines company earnings, Earnings stability determines company earnings, Debt ratio corresponds to lower dividends and Ratio of total debts to total assets corresponds to higher dividends.

On whether investment decisions determines dividend payout it was concluded that Inflation rates determines investment decision, earnings per share is a determinant of investment decision, return on capital is employed in our organization, return on shareholders' Fund are adequate in our organization, shareholder's wealth is maximized through effective investment methods and change of investment choices alters dividend payout policy.

Lastly it was concluded that dividend turnover increases firms growth opportunities, market capitalization expands a company's dividends, long-run target dividend per share increases company earnings, firm's payout ratio determines the amount of dividends to be paid and finally dividend payout policy Increases Company's diversification of products.

5.4 Recommendation of the Study

5.4.1 Recommendation with Policy and Practice

Founded on the study findings, the researcher therefore recommends the following:

- i. Managers of listed financial institutions in Nairobi Securities Exchange should ensure effective access to information regarding the firm's future prospects to investors, they should use variations in dividends as a medium to send information about a firm's future earnings and growth to the financial market, this will help outside investors who may look at dividend announcements as a true reflection of the an assessment of a firm's performance and prospects
- ii. Listed financial institutions in Nairobi Securities Exchange should ensure stable dividend policy which will help in ensuring that a firm can continue fulfilling to shareholders what they require which is a steady source of income for some of the shareholders who prefer stable dividends.
- iii. Listed financial institutions in Nairobi Securities Exchange should ensure continued payment of dividends to its shareholders and also keep an eye on their earnings for it sends a signal to the public about the wellbeing of the company.
- iv. Lastly listed financial institutions in Nairobi Securities Exchange should stabilize dividend distributions and thus provide consistency in the pattern of dividend action thus help minimize adverse stockholder reactions.

5.4.2 Suggestion for Further Research

In order to allow for thorough investigation, this study suggests that future studies be done on the effectiveness of firms' growth opportunities on the dividends to be paid to shareholders. This will make information available for growing and expanding of listed financial institutions in Nairobi Securities Exchange, the researcher also suggests that future study be done on the measures to promote increase in firm size and its impact on dividend payout policy to shareholders.

Lastly since the study excluded listed companies in Nairobi Securities Exchange from other sectors, the study suggests that same study be done but on the excluded companies to ensure thorough research on the variables of the study.

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APPENDIX I QUESTIONNAIRE

I am a student at Kisii University pursuing Master's Degree in Business Administration (Finance Option). As part of the course requirement, I am carrying out a research study entitled, **ASSESSMENT OF THE DETERMINANTS OF DIVIDEND PAYOUT POLICY IMPLEMENTATION: A CASE OF FINANCIAL INSTITUTIONS LISTED AT NAIROBI SECURITIES EXCHANGE**. The research study is a partial requirement for the award of Master's Degree in Business Administration (Finance Option). This questionnaire is therefore issued purely for academic purpose and the information provided will be treated confidentially. Your corporation will be highly appreciated. Moreover your cooperation in ensuring that the questionnaires are answered will be highly appreciated. Please note that the information you give will be treated with confidence and will be used for academic purpose only.

SECTION A: BACKGROUND INFORMATION OF THE RESPONDENTS

Please tick the appropriate box that best describes your answer

1. Your gender

Male Female

2. Your age bracket

21-25 36-40 26-30
41-44 31-35 45 and above

3. How long have you been working in this institution? (Tick one)

Less than 5 year 6-10 years
11-15 years More than 16 years

SECTION A: COMPANIES EARNINGS AND DIVIDEND PAYOUT POLICY IMPLEMENTATION

This section deals with information pertaining dividend payout policy implementation and companies' earnings. Please indicate the level of your agreement through ticking the most appropriate box.

Where: Strongly agree (5) Agree (4) Undecided (3) Disagree (2) Strongly Disagree (1)

Dividend Payout policy implementation and Company Earnings	5	4	3	2	1
Return on equity determines company earnings					
Market Price Per share determines company earnings					
Earnings stability determines company earnings					
Debt ratio corresponds to lower dividends					
Ratio of total debts to total assets corresponds to higher dividends.					

SECTION B; FIRMS GROWTH OPPORTUNITIES AND DIVIDEND PAYOUT POLICY IMPLIMENTATION

This section deals with the information pertaining dividend payout policy implementation on firm's growth opportunities. Use the rating provided. Please indicate the level of your agreement through ticking the most appropriate box.

Where; strongly agree (5) Agree (4) Undecided (3) Disagree (2) Strongly Disagree (1)

Dividend payout policy implementation and firms growth opportunities	5	4	3	2	1
Market capitalization is a determinant of firm's growth opportunities					
Dividend turnover plays a role in determining the growth of the firm					
Diversification of products determines firms growth opportunities					
Market capitalization expands a company's dividends					
Firm's payout ratio determines the amount of dividends to be paid					
Dividend payout policy increases company's diversification of products					

SECTION C: INVESTMENT DECISIONS AND DIVIDEND PAYOUT IMPLEMENTATION

This section deals with information pertaining dividend payout policy implementation and Investment decisions. Please indicate the level of your agreement through ticking the appropriate box.

Strongly agree (5) Agree (4) Undecided (3) Disagree (2) Strongly Disagree (1)

Dividend Payout Policy implementation and Investment Decisions	5	4	3	2	1
Inflation rates determines investment decision					
Earnings per share is a determinant of investment decision					
Return on capital is employed in our organization					
Return on shareholders' Fund are adequate in our organization					
Shareholder's wealth is maximized through effective investment methods					
Change of investment choices alters dividend payout policy					

SECTION C: DIVIDEND PAYOUT POLICY IMPLEMENTATION

This section deals with information pertaining dividend payout policy implementation. Please indicate the level of your agreement through ticking the appropriate box.

Strongly agree (5) Agree (4) Undecided (3) Disagree (2) Strongly Disagree (1)

Dividend Payout Policy implementation	5	4	3	2	1
Dividend Payout Policy implementation determines what proportion of the earnings ought to be invested to ensure increased profitability					
Dividend Payout Policy implementation determines which percentage of the earnings should be given to investors in form of dividends					
Dividend Payout Policy implementation indicates predictable earnings to investors and thus, makes the company a good investment					
Dividend Payout Policy implementation gives a strong signal about the future prospects of the company					

**APPENDIX II: FINANCIAL INSTITUTIONS LISTED AT NAIROBI SECURITIES
EXCHANGE AS AT 2015/2016 FINANCIAL YEAR**

Banking industry

Symbol	Listing	Notes
BBK	Barclays Bank of Kenya	Banking, finance
CFC	CfC Stanbic Holdings	Banking, finance
DTK	Diamond Trust Bank Group	Banking, finance
EQTY	Equity Group Holdings Limited	Banking, finance; cross listed on the Uganda Securities Exchange
HFCK	Housing Finance Company of Kenya	Mortgage financing
I&M	I&M Holdings Limited	Banking, Financial services
KCB	Kenya Commercial Bank Group	Banking & finance. Crosslisted on the Uganda Securities Exchange, the Dar es Salaam Stock Exchange and the Rwanda Stock Exchange
NBK	National Bank of Kenya	Banking, finance
NIC	National Industrial Credit Bank	Banking, finance
SCBK	Standard Chartered of Kenya	Banking, finance
COOP	Cooperative Bank of Kenya	Banking, finance

