

EFFECT OF DIVIDEND POLICY ON FINANCIAL PERFORMANCE OF NON FINANCIAL FIRMS LISTED AT NAIROBI SECURITY EXCHANGE

¹Sheila Mukanzi, ²Edah Kavwanyiri, ³Dr. Julius Bichanga Miroga

^{1, 2, 3}Jomo Kenyatta University of Agriculture and Technology

Abstract: As a company earns profits it can pay it back to its investors as dividends or it can retain it within the business for reinvesting. It may however decide to apportion the surplus to both. In taking any of the above courses of action, managers should concentrate on how to maximize the wealth of shareholders for whom the firm is being managed. Decision making about dividend policy is one of the most important decision that companies have to make. Dividend policy is dependent on lots of factors such as type of industry, trends of profits, taxation policy and liquidity. The objective of the study was to determine the effect of dividend policy on the financial performance of non financial firms listed at the NSE. The study period was a five year period i.e. 2010-2014. This study involved the use of a descriptive research design using a sample of 46 firms listed at the NSE. This study found that Payout Ratio had no significant positive effect on ROE and not significant negative effect on ROA. Leverage had a significant negatively effect ROE and no significant negative effect on ROA. Liquidity had no significant negative effect on ROE and a significant positive effect on ROA. The firm size and leverage had a significant negative effect on ROE and no significant negative effect on ROA the other variables (dividend payout ratio and liquidity) had the same results as without the firm size. The study concluded that the major factors that affect financial performance of listed firms are; Payout Ratio, liquidity and leverage.

Keywords: The author gives 5 – Dividend Policy, Dividend Payout, Leverage, Liquidity, financial performance.

I. INTRODUCTION

A business outfit that makes profit from its operation at the end of the financial year is expected to make a decision concerning the portion of the profit to be distributed to the providers of funds (equity shareholders) as dividend and the portion to be retained for future re-investment (Sunday, Ajibola & Tobechei, 2015). Consequently this becomes a significant managerial decision because a bad decision made by the management of corporation may in turn affect the future market value of the firm. Dividend policy provides the management with guidelines and regulations to determine the proportions of the firm returns to be retained and to be distributed to the shareholders as cash dividend respectively (Kimunduu, 2017). According to Nissim and Ziv (2001) dividend policy is the system and regulations followed by the management when rewarding the owners of the company for investing their financial resources in that business enterprise.

Dividends are generally defined as the distribution of earnings in real assets amongst the shareholders of the company in proportion to their ownership. According to Simon-Oke and Ologunwa (2016) the dividend policy of a firm refers to the views and practices of the management with regard to the distribution of earnings to the shareholders in the form of dividends. When a company makes a profit, they must decide on what to do with those profits. They could continue to

retain the profits within the company, or they could pay out the profits to the owners of the firm in the form of dividends. A dividend structure may be established when a company decides on whether to pay dividends which may in turn impact on investors and perceptions of the company in the financial markets which bring effect on the firm's value.

The Nairobi Securities Exchange was constituted as a voluntary association of stock brokers under the society act. Over the earlier period, the securities exchange has observed numerous changes, computerizing its trading in September 2006 and in 2007 making it possible for stockbrokers to trade distantly from their offices, doing away with the necessitates for dealers to be actually present on the trading floor. Trading hours were also improved from two to six. Relocating to Wetlands in the environs of Nairobi characteristically marked the end of an age where the market was owned and run by stockbrokers. Daily nation (19th Jan. 2013)

Nairobi Securities Exchange goals are sustaining trading clearing settlement of equities debt, derivatives and other related instruments. It is authorized to list companies on the securities exchange and make possible for investors to trade in securities of companies as a result its charged with the health of Securities Exchange and it's regulated by Capital Markets Authority.

The Nairobi Securities Exchange companies are clustered into the following ten sectors; Agricultural Sector, Automobiles & Accessories, Banking, Commercial & Services, Construction & Allied Sector, Energy & Petroleum, Insurance, Investment, Manufacturing & Allied and Telecommunication & Technology.

1.1 Statement of the problem:

The issue of dividend policy is very important in the current business environment. According to Nissim & Ziv (2001), dividend policy provides the management with guidelines and regulations to determine the proportions of the firm returns to be retained and to be distributed to the shareholders as cash dividend respectively. Dividend is compensation to shareholders for their investment in the firm and it is distributed from profit earned by the firm at the end of the financial period (Kajola et al., 2015). Therefore, a company determines dividends policy to look forward the profit gained that will be allocated into dividends and retained earnings (Velnampy, 2014). As stated by Carolyne (2015) in her study on the effect of dividend policy on the financial performance of firms listed at the Nairobi Securities Exchange provides the basis for dividend policy in the modern era. She argues that the effect of a firm's dividend policy on the current price of its shares is a matter of considerable importance not only to management but also investors.

Various scholars have studied the correlation linking dividend policies performance of the firm have produced different results of the relevance of dividend payment. A study by Musyoka (2015) to determine the effect of dividend policy on the financial performance of firms listed at the NSE. She found that dividend policy had a significant positive effect on financial performance of firms listed at the NSE. Except firm size and leverage which had a negative effect on financial performance of firms. Kimunduu (2017) studied on the relationship between dividend policy and firm Performance and found that there was a statistically significant direct association between return on equity and dividend policy. This implies that as firm profitability improve; a corresponding proportionate change in dividend payout ratio is initiated by management. Yegon et al., (2014) ascertained the relationship between dividend policy and firm's profitability, Investment and Earning per Shares in Kenya. Thus, there is a significant positive relationship between dividend policies of organizations and firm's profitability, there is also a significant positive relationship between dividend policy and investments and there is a significant positive relationship between dividend policy and Earnings per Share.

Therefore, there are many factors affect the performance of corporate organizations and one of those factors is dividend policy. Empirical research show that firms in developing Countries smooth on their income and consequently, their dividends. The blueprint of company dividend policies not only differs over time but also across countries, particularly between developed, developing and emerging Capital markets. If the worth of the company is the function of its dividend outflow, dividend policy will influence directly the company's cost of capital. Is there any significant association between dividend policy and financial performance of Non Financial Firms Listed at Nairobi Security Exchange? This is the question this research study intends to answer.

1.2 Research objectives:

The main aim of the study was to investigate the Effect of Dividend Policy on Financial Performance Non Financial Firms Listed at Nairobi Security Exchange

Specific Objectives:

- 1) To find out the Effect of Dividend Payout on Financial Performance Non Financial Firms Listed at Nairobi Security Exchange
- 2) To establish the effect of Leverage on Financial Performance Non Financial Firms Listed at Nairobi Security Exchange
- 3) To determine the Effect of Liquidity on Financial Performance Non Financial Firms Listed at Nairobi Security Exchange

1.3 Research hypothesis:

The study sought to answer the following research questions

- 1) **H₀₁**: Dividend Payout ratio has no significant effect on Financial Performance Non Financial Firms Listed at Nairobi Security Exchange
- 2) **H₀₁**: Leverage has no significant effect on Financial Performance Non Financial Firms Listed at Nairobi Security Exchange
- 3) **H₀₁**: Liquidity has no significant effect on Financial Performance Non Financial Firms Listed at Nairobi Security Exchange
- 4) **H₀₁**: Firm size has no significant effect on Financial Performance Non Financial Firms Listed at Nairobi Security Exchange

II. LITERATURE REVIEW

This chapter highlights the common dividend policy theories which include Bird-In-The-Hand Theory, Signaling Theory, Agency Theory, and Clientele Effect Theory. The chapter also reviews relevant literature.

2.1 Dividend Policy Theories:

2.1.1 Bird-In-The-Hand Theory:

The "Bird in Hand" theory of Gordon (1962) argues that outside shareholders like better a higher dividend policy. They have a preference of having dividend today to a highly uncertain capital gain from a questionable future investment. A number of studies exhibit that this mode to be unsuccessful if it is posited in a complete and perfect market with investors who behave according to philosophies of rational behavior (Brealey & Myers 2005).

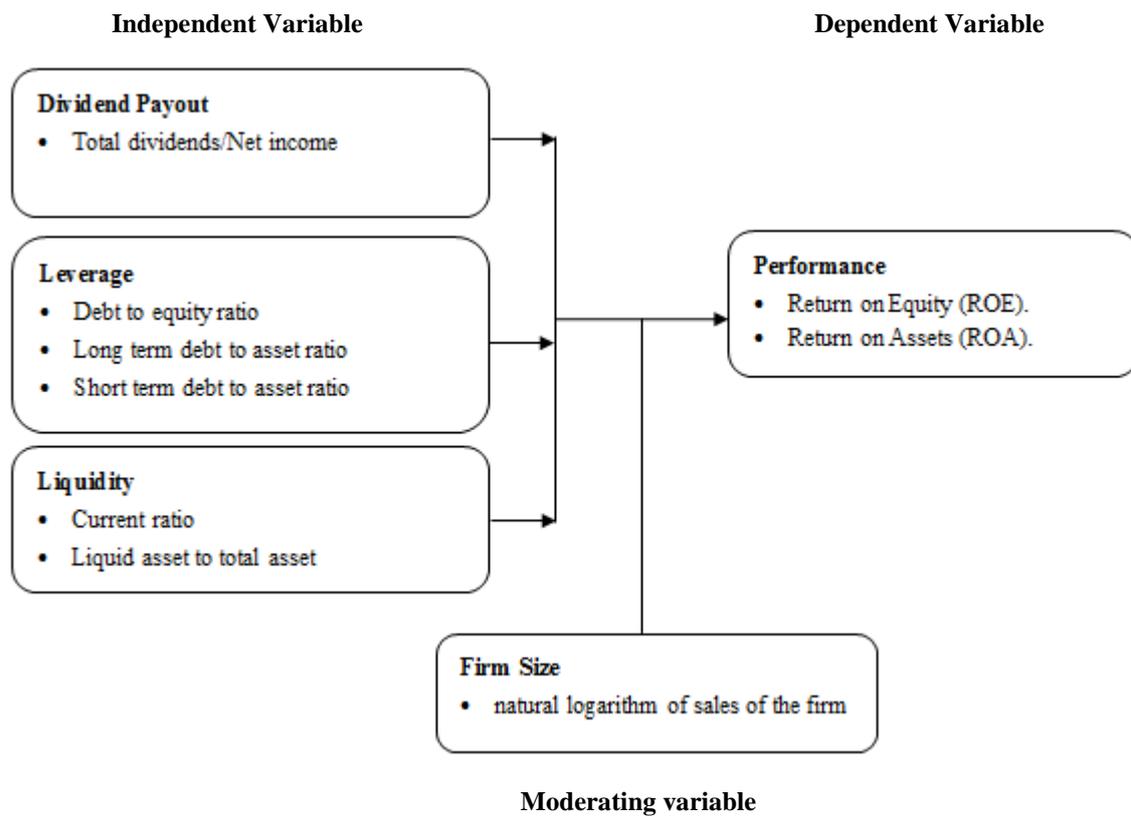
2.1.2 Signaling Theory:

According to the information content of dividends or signaling theory, firms are displeased with the distortion of investment decisions to capital gains, may pay dividends to signal their future projection (Amidu, 2007). The perception underlying this argument is based on the information asymmetry between managers who are the insiders and the outside investors, where managers have private information about the current and future privileged circumstances of the firm that is not available to outsiders.

2.1.3 Agency Theory:

Even if a company does not contain free cash flow, dividend payments can still be helpful for the shareholders in order to deal with the over investment problem. Samuel and Wilkes (2011) stipulate that dividends decreases the over investment problem since the payment of dividends intensify the frequency with which companies have to go to equity markets in order to incur high capital. In the course of drawing new equity, companies present themselves to the monitoring of these markets thus lowering the agency cost.

2.2 Conceptual framework:



2.3 Review of variables:

2.3.1 Dividend payout ratio:

The calculation of Dividend payout ratio is the proportion of net profits that is dispersed to shareholders in the form of dividends during the financial year. This ratio demonstrates the segment of profits the company decides to remain funding the business operations and the fraction of profits that is distributed to its shareholders (Gill, Biger, & Tibrewala, 2010).

According to Mistry (2010) investors are mainly concerned in the dividend payout ratio because they want to know if companies are paying out a reasonable fraction of net income to shareholders. On the other hand, some companies want to encourage investors' interest so much that they are willing to pay out unreasonably high dividend percentages. Shareholders can view that these dividend rates cannot be continual for a very long time this is because the company will finally require more money for its operations.

2.3.2 Leverage:

Leverage is defined as the proportion of debt to equity capital of a firm. The proportion of the two affects the cost of capital and the value of the firm (Pandey, 2007). The amount of debt a firm has dictates the financial performance of a firm. According to Jensen (1986), debt financing reduces the moral hazard behavior by reducing cash flow at the managers' disposal. This increases their pressure to perform hence improving firm's financial performance. Hence firms with high leverage are better placed to financially perform better. Several researchers have studied the relationship between leverage and firm performance and found out that high leverage decreases the conflict between management and shareholders leading to improved performance hence a positive relationship exists.

2.3.3 Liquidity:

Liquidity is the available cash for the near future, or any asset that can be easily and cheaply converted to cash. A firm can use its readily available cash to finance its operations when the long-term financing is not available. Readily available cash also helps to deal with its obligations when the earnings are low, and can also help in meeting unexpected emergencies. Almal *et al.*, (2012) found that firm liquidity had significant effect on 13 Financial Performance of firms. It is therefore important that companies increase their current assets and decrease current to improve on liquidity.

2.3.4 Firm Size:

A study by Collins *et al.*, (1996), Zeng (2003) and Deshmukh (2005) found that firm size has an association with the dividend policy. Collins *et al.*, (1996) suggested that larger firms have more liberal payout that results to a positive relationship with dividend payout. Lee (1997) study results demonstrated that large companies are certainly the ones that are most likely to pay dividends explaining the choice of whether to pay dividends or not. Zeng (2003) showed that large firms are positively associated to diversification and decentralization and are less observable to the actions of management thus higher agency costs may be incurred. Therefore, paying high dividends may reduce the agency cost. The company's size represents symmetric information such that where a large company has less asymmetric information it results to a higher dividend pay (Mitton, 2004; Deshmukh, 2005).

2.4 Empirical Review:

Namachanja (2016) study the impact of dividend policy on the financial performance of the ten listed commercial banks found in Kenya. The study used secondary information which was obtained from banks audited from financial reports. Towards achieving this objective data from 10 listed commercial banks was examined for the period of five years which was from 2011-2015. The study was a census and adopted descriptive design. The design built-in the study that intended to establish the relationship between dividend policy and financial performance with variables as Asset quality, liquidity management, capital adequacy and size. Regression analysis was used to illustrate the influence of dividend per share, asset quality, liquidity management, capital adequacy and size on financial performance. Correlation was used to determine the relationship of the variables in the model. The research results illustrated that capital adequacy and total asset had a substantial positive effect on financial performance of the listed commercial banks whilst asset quality and dividend per share had negative effect on the return of assets of listed commercial banks.

Musyoka (2015) did a study on effect of dividend policy on the financial performance of companies listed at the NSE from 2010-2014. It involved the use of descriptive research design with a sample of 20 companies listed at the NSE 20 share index. The population consisted of all the 64 listed firms in Kenya. The study found that dividend policy had a positive effect on financial performance of companies listed at the NSE. Dividend payout ratio, timing of dividend payments and form of dividend payments had a significant positive effect on the value of the firm since their p-value was lower than the critical value except firm size and leverage which had a negative effect. Correlation coefficient used concluded that dividend policy had a positive correlation with the financial performance of the firm. The study concluded that the major factors that affect financial performance of listed firms include form of dividend payments, DPR and timing of dividend payments. Total assets and leverage have negative significant effect on the financial performance of firms.

Yegon, Cheruiyot and Sang (2014) investigated on the relationship between Investment and Earning per Shares, dividend policy and company's profitability. Data was obtained from financial annual report and accounts of 9 cited manufacturing companies in Kenya. Data was analyzed using e-view software. The findings indicated that, there is a significant positive relationship between dividend policies and firm's profitability, also there is a significant positive relationship between dividend policy and investments.

Shisia, Sirma, Sang and Maundu (2014) investigated the influence of dividend policy on the financial performance of firms at the Nairobi Securities Exchange. A sample of thirty listed companies at Nairobi security exchange was used. Random sampling was used for this study. A regression relationship was generated to show the extent to which each independent variable influenced the dependent variable. A correlation analysis was also performed to find how the variables are related to each other in the model. The study concluded that there is a significant relationship between dividend pay-out ratio and dividend per share. It further indicated that the relationship is not only significant but also direct such that a unit change in dividend per share is followed by a unit positive change in retained earnings. The study also found out that the performance of returns on equity is higher than the performance of all the other variables as given in the trends.

Amidu (2007) studies examined whether dividend policy influences firm performance in Ghana. The analysis was carried out using data obtained from the financial statements of listed companies on the GSE for eight recent years. Ordinary Least Squares model is used to estimate the regression equation. To operationalise dividend policy; the study keyed: '1' to signify the firm has a policy to pay dividend; while '0' to signify the firm has a policy not to pay dividends. The results show positive relationships between return on assets, dividend policy, and growth in sales. The study revealed that larger company's on the GSE perform less with respect to return on assets. The outcomes also disclose negative relations between return on assets, dividend payout ratio and leverage. The results of the study in general support preceding empirical study. The main aim of this study was the recognition of how dividend policy influence performance of companies listed on the Ghana Stock exchange.

III. RESEARCH METHODOLOGY

3.1 Introduction:

This chapter highlights the research design that the researcher used, the population from which the sample was chosen thus companies listed on Nairobi Securities Exchange, sampling frame and technique applied, data collection and analysis method that was run on the data collected.

3.2 Research Design:

The researcher was empirical type of research. The study was data-based research; give you an idea about conclusions which are capable of being confirmed by observation or experiment. It employs secondary data from companies listed on Nairobi Securities Exchange and companies' website. Audited financial statements for the companies selected were used consequently increasing the reliability and validity of the findings and conclusion.

3.3 Sample:

The total population of NSE listed non-financial companies stand at 50. Stratified sampling method was used in this study because of the nature of the study. The study was restricted to all listed non-financial companies and those selected had to contain complete data. The sample contained 30 companies which were listed on Nairobi Securities Exchange for period of five years from 2010-2015 which is approximately 60%. Companies that were not listed in the NSE for the duration of the five year were left out of the sample. In this research financial companies have been excluded the reason being that financial companies operate under different regulation rules the central bank of Kenya beside the companies act cap 486. The sample included companies from the following eight sectors Agricultural Sector, Automobiles and Accessories, Commercial and Services, Construction and Allied Sector, Energy and Petroleum, Insurance, Investment Manufacturing and Allied Telecommunication and Technology.

Table 1: Percentage of Samples Selected

Company category	Total no of companies	Percentage	Sample
Agricultural Sector	7	57	4
Automobiles and Accessories	4	75	3
Commercial and Services	9	67	6
Construction and Allied Sector	5	80	4
Energy and Petroleum	4	75	3
Insurance	6	33	2
Investment	4	50	2
Manufacturing and Allied	9	56	5
Telecommunication and Technology	2	50	1
TOTAL	50	60	

3.4 Data Collection:

The data was taken from reliable sources to ensure the reliability of the study. Secondary data was collected from various databases to undertake the analysis. Audited income statements, balance sheets and cash flow statements were collected from the Nairobi Securities Exchange limited and companies' website. Using EVIEWS software 13, inferential analysis was performed on variables using multiple regression models. Dividend policy was the independent variable in the study and was operationalized as dividend payout ratio, leverage and liquidity. The financial performance was the dependent variable and was measured using Return on Equity (ROE), Return on Assets and Total Assets.

The linear regression model developed for the study was as follows:

Model 1 Dependent variable dividend per share

$$Y_{ROE} = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

$$Y_{ROA} = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

Model 2 Dependent variable dividend per share (size as a factor)

$$Y_{ROE} = \alpha + \beta_1 X_1, SZ + \beta_2 X_2, SZ + \beta_3 X_3, SZ + e$$

$$Y_{ROA} = \alpha + \beta_1 X_1, SZ + \beta_2 X_2, SZ + \beta_3 X_3, SZ + e$$

Where SZ is the size of the firm which is represented by natural logarithm of sales of the firm

IV. RESEARCH FINDINGS AND DISCUSSION

Table 4.1: Data Analysis and Discussions

	Minimum	Maximum	Mean	Std. Deviation	Skewness	Kurtosis
ROE	-.59	1.76	.1856	.40934	1.945	6.359
ROA	-.25	.24	.0559	.09031	-.430	2.313
Payout ratio	-948.59	97.70	2.1494	146.09968	-6.377	42.341
Leverage	.00	.54	.2685	.15315	-.263	-.785
Liquidity	.00	6.59	1.2073	1.38752	2.799	8.782

From the above Table 4.1 it is noted that all variables have positive mean for both Dividend Policy and Financial Performance. The mean value of ROE (0.1856) and ROA (0.0559) indicate that Kenyan companies listed on the NSE by considering inflation rate have a good performance.

Dividend Policy proxies of Non Financial Companies Quoted at Nairobi Security Exchange Payout ratio mean value (2.1494), Leverage mean value (0.2685), Liquidity mean value (1.2073) show that Kenyan firms declaration of dividends involves some legal along with financial considerations which present a difficult situation to the management for coming to a decision regarding dividend distribution. The Non Financial Companies Quoted at Nairobi Security Exchange tends to use Bird in Hand theory where outside shareholders like better higher dividend policy. They have a preference of having dividend today to a highly uncertain capital gain from a questionable future investment. The independent variables Payout ratio, Leverage display a negative skewness at -6.377 and -.263 respectively drawing the conclusion that the data distributions were approaching left and Liquidity had a positive skewness at 2.799 indicating that the data was approaching right and the POR had a large kurtosis statistic at 42.341 indicating a high peak to the right of the data distribution.

Table 4.2: Correlations Matrix Financial Performance

		ROE	ROA	Payout Ratio	Leverage	Liquidity
ROE	Pearson Correlation	1				
	Sig. (2-tailed)					
ROA	Pearson Correlation	.557**	1			
	Sig. (2-tailed)	.000				
Payout Ratio	Pearson Correlation	.048	-.181	1		
	Sig. (2-tailed)	.755	.230			
Leverage	Pearson Correlation	-.390**	-.206	.095	1	
	Sig. (2-tailed)	.009	.169	.531		
Liquidity	Pearson Correlation	-.011	.391**	-.569**	-.117	1
	Sig. (2-tailed)	.942	.007	.000	.441	

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

Correlation shows the association existing between variables thus the study's dependent variable is ROE and ROA and the independent variables consist of Payout Ratio, Leverage and Liquidity. The result in table 4.2 provides the Pearson Correlation matrix which indicate that the variable Payout Ratio measures Total dividends to Net income. The results show that it's positively correlated (0.048) with ROE and not significant at 99% confidence level this shows firm on NSE does not pay dividend based on shareholders wealth. Payout Ratio shows a weak negative correlation with ROA (-0.181) and this is not significant at 99% confidence level.

Leverage measures are Debt to equity ratio, Long term debt to asset ratio and Short term debt to asset ratio. The results show that it's negatively correlated (-0.390**) with ROE and significant at 99% confidence level this shows firm on NSE does not pay dividend based on shareholders wealth, this is in line with Asif, Rasool and Kamal (2011) who found financial leverage to have a negative impact on dividend payout, indicating less dividend payments by high-debt firms. Leverage shows a weak negative correlation with ROA (-0.206) and this is not significant at 99% confidence level.

Liquidity measures Current ratio and Liquid asset to total asset. The results show that it's negatively correlated (-0.011) with ROE and not significant at 99% confidence level this shows firm on NSE does not pay dividend based on shareholders wealth. Liquidity shows a weak positively correlation with ROA (0.391**) and this is significant at 99%

confidence level this shows that when shareholders have more supremacy, liquidity would be more strongly associated with dividends as company directors would be expected to pay dividends to meet shareholders preference for liquidity. This is consistent with Deniz, Jureo de Paula and Pinheiro (2010) who found dividend-paying companies have a more liquid market for their securities and measures of a security liquidity is positively associated to its probability of being a dividend payer.

Table 4.3: Overall Models of Independent Variables TO ROE

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.404 ^a	.163	.100	.38825	1.849

a. Predictors: (Constant), Liquidity, Leverage, Payout Ratio

b. Dependent Variable: ROE

The linear regression models the relationship between the dependent variable ROE and the independent variables Payout Ratio, Leverage and Liquidity. The results in table 4.3 summary of R square of 0.163 implying that 16.3% of variance in the dependent variable can be accounted for the independent variable. When Durbin Watson factors are between 1 and 3 it shows that there is no autocorrelation problem (Crespo, Palokangas and Tarasyev, 2013). Autocorrelation presence has been tested using Durbin Watson and table 4.3 above shows that the Durbin Watson value of 1.849 indicating that there is no autocorrelation problem and that the residual from linear regression are dependent.

Table 4.4: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.532	.156		3.414	.001		
	Payout Ratio	.000	.000	.060	.337	.738	.670	1.493
	Leverage	-1.155	.417	-.409	-2.769	.008	.957	1.044
	Liquidity	-.018	.053	-.061	-.342	.734	.650	1.540

a. Dependent Variable: ROE

From table 4.4 indicates there is no multicollinearity problem because the VIF values are less than 10. Multicollinearity problems can present if the tolerance value are more than 1 (Robert, 2015). For the above regression the values are less than 1 meaning there is no multicollinearity problem thus less than 100% of independent variables explain variance in dependent variable.

The regression equation is $Y_{ROE} = 0.532 + 0.000 \text{ Payout Ratio} - 1.155 \text{ Leverage} - 0.018 \text{ Liquidity}$. From the equation above if Payout Ratio, Leverage and Liquidity are zero, the ROE will be 0.532. Supposing ROE increased by one unit whereas Leverage and Liquidity are zero this imply that Payout Ratio will increase by 0 in the same direction. If payout ratio and Liquidity becomes zero while ROE increased by one unit leverage will increase by -1.155 in the opposite direction and when ROE increased by one unit and Payout Ratio, Leverage are zero Liquidity will increase by -0.018 in different direction.

Table 4.5: Overall Models of Independent Variables TO ROA

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.426 ^a	.182	.123	.08455	1.491

a. Predictors: (Constant), Liquidity, Leverage, Payout Ratio

b. Dependent Variable: ROA

The linear regression models the relationship between the dependent variable ROA and the independent variables Payout Ratio, Leverage and Liquidity. The results in table 4.5 summary of R square of 0.182 implying that 18.2% of variance in the dependent variable can be accounted for the independent variable. When Durbin Watson factors are between 1 and 3 it shows that there is no autocorrelation problem (Crespo, Palokangas and Tarasyev, 2013). Autocorrelation presence has been tested using Durbin Watson and table 4.3 above shows that the Durbin Watson value of 1.491 indicating that there is no autocorrelation problem and that the residual from linear regression are dependent.

Table 4.6: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	.050	.030		1.676	.101		
Payout Ratio	4.242	.000	.069	.404	.688	.675	1.481
Leverage	-.097	.083	-.165	-1.172	.248	.985	1.015
Liquidity	.027	.011	.410	2.411	.020	.672	1.488

a. Dependent Variable: ROA

From table 4.6 indicates there is no multicollinearity problem because the VIF values are less than 10. Multicollinearity problems can present if the tolerance value are more than 1 (Mukanzi, Mukanzi and Maniagi, 2016). For the above regression the values are less than 1 meaning there is no multicollinearity problem thus less than 100% of independent variables explain variance in dependent variable. The regression equation is $Y_{ROA} = 0.050 + 4.242 \text{ Payout Ratio} - 0.097 \text{ Leverage} + 0.027 \text{ Liquidity}$ from the equation above if Payout Ratio, Leverage and Liquidity are zero, the ROA will be 0.050.

Assuming ROA increased by one unit whereas Leverage and Liquidity are zero this implies that payout ratio will increase by 4.242 in the same direction. If payout ratio and Liquidity becomes zero while ROA increased by one unit leverage will increase by -0.097 in the opposite direction and when ROA increased by one unit and Payout Ratio, Leverage are zero Liquidity will increase by 0.027 in same direction.

Table 4.7: Correlations Matrix Financial Performance (Firm size as a moderator)

		ROEFz	ROAFz	Payout RatioFz	LeverageFz	LiquidityFz
ROEFz	Pearson Correlation Sig. (2-tailed)	1				
ROAFz	Pearson Correlation Sig. (2-tailed)	.557** .000	1			
Payout RatioFz	Pearson Correlation Sig. (2-tailed)	.048 .755	-.181 .230	1		
LeverageFz	Pearson Correlation Sig. (2-tailed)	-.389** .009	-.201 .181	.084 .577	1	
LiquidityFz	Pearson Correlation Sig. (2-tailed)	-.087 .576	.316* .033	-.406** .005	.224 .134	1

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

* . Correlation is significant at the 0.05 level (2-tailed).

Table 4.7 correlation analysis taking size of the firms as a moderating variable (size is taken to be represented by natural logarithm of sales) the correlation matrix between financial performance and dividend policy proxies show that dividend policy proxies payout ratioFz (0.048), LeverageFz (-0.389**) & LiquidityFz (-0.087). LeverageFz has a strong negative correlation with ROEFz and it's significant at 99% confidence level and LiquidityFz has a strong negative correlation with ROAFz for each it's significant at 95% confidence level. This implies that with a firm's size as a factor firms on NSE acquire Payout ratio based on shareholders equity and liquidity based on value of the value of the asset thus use it as indicator.

Table 4.8: Overall Models of Independent Variables TO ROE (Firm size as a moderator)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.399 ^a	.159	.096	.38916	1.818

a. Predictors: (Constant), LiquidityFz, LeverageFz, Payout RatioFz

b. Dependent Variable: ROE

From the results table 4.8 Model II the VIF values are less than 5 hence no multi collinearity problem, also the Durbin Watson factors are less than 3 hence no autocorrelation problem. The relationship between ROE with Dividend policy shown by R2 coefficient of determination is 0.159 that is only 15.9% of variance in the dividend policy moderate by firm size (LiquidityFz, LeverageFz, Payout RatioFz) can be accounted by ROE while the remaining 84.1% by other factors not considered.

Table 4.9: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.199	.059		3.382	.002		
	Payout RatioFz	.036	.065	.089	.548	.586	.801	1.248
	LeverageFz	-.221	.082	-.398	-2.685	.011	.957	1.045
	LiquidityFz	.000	.088	-.001	-.004	.997	.798	1.254

a. Dependent Variable: ROEFz

From table 4.9 indicates there is no multicollinearity problem because the VIF values are less than 10. Multicollinearity problems can present if the tolerance value are more than 1 (Robert, 2015). For the above regression the values are less than 1 meaning there is no multicollinearity problem thus less than 100% of independent variables explain variance in dependent variable.

The regression equation is $Y_{ROEFZ} = 0.199 + 0.036 \text{ Payout RatioFz} - 0.221 \text{ LeverageFz} + 0.000 \text{ LiquidityFz}$ from the equation above if Payout RatioFz, LeverageFz and LiquidityFz are zero, the ROEFz will be 0.199.

Assuming ROEFz increased by one unit whereas LeverageFz and LiquidityFz are zero this implies that payout ratio will increase by 0.036 in the same direction. If payout ratioFz and LiquidityFz becomes zero while ROEFz increased by one unit leverageFz will increase by -0.221 in the opposite direction and when ROEFz increased by one unit and Payout RatioFz, LeverageFz are zero LiquidityFz will increase by 0.000 in same direction.

Table 4.10: Overall Models of Independent Variables TO ROA (Firm size as a moderator)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.421 ^a	.177	.119	.08478	1.490

a. Predictors: (Constant), LiquidityFZ, LeverageFZ, Payout RatioFz

b. Dependent Variable: ROA

From the results table 4.8 Model II the VIF values are less than 5 hence no multi collinearity problem, also the Durbin Watson factors are less than 3 hence no autocorrelation problem. For ROA with dividend policy shown by R2 coefficient of determination is 0.177 that is 17.7% of variance in the capital structure (LiquidityFZ, LeverageFZ and Payout RatioFZ) can be accounted by ROA.

Table 4.11: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.056	.013		4.473	.000		
	Payout RatioFz	.000	.014	-.003	-.019	.985	.803	1.245
	LeverageFz	-.033	.017	-.286	-1.950	.058	.913	1.096
	LiquidityFz	.044	.019	.379	2.370	.022	.768	1.302

a. Dependent Variable: ROA

From table 4.11 indicates there is no multicollinearity problem because the VIF values are less than 10. Multicollinearity problems can present if the tolerance value are more than 1 (Robert, 2015). For the above regression the values are less than 1 meaning there is no multicollinearity problem thus less than 100% of independent variables explain variance in dependent variable.

The regression equation is $Y_{ROEFZ} = 0.056 + 0.000 \text{ Payout RatioFz} - 0.033 \text{ LeverageFz} + 0.044 \text{ LiquidityFz}$.

From the equation above if Payout RatioFz, LeverageFz and LiquidityFz are zero, the ROEFz will be 0.056. Assuming ROEFz increased by one unit whereas LeverageFz and LiquidityFz are zero this implies that payout ratio will increase by 0.056 in the same direction. If payout ratioFz and LiquidityFz becomes zero while ROEFz increased by one unit leverageFz will increase by -0.033 in the opposite direction and when ROEFz increased by one unit and Payout RatioFz and LeverageFz are zero LiquidityFz will increase by 0.044 in same direction.

V. CONCLUSION

The research aims to explore the relationship between dividend policy and financial performance of Non financial firms listed on Nairobi securities exchange. A sample of 46 companies was selected for the period 2010-2015. Analysis was performed using both descriptive statistics and inferential by applying linear regression analysis Non financial Firms listed on Nairobi securities exchange have adopted Bird in Theory due to preference of having dividend today to a highly uncertain capital gain from a questionable future investment. Most firms prefer to pay shareholders by using dividend payout ratio so that each shareholder will earn in proportion to their capital contribution. From the results payout ratio was positively correlated to return on equity while liquidity was positively correlated to return on asset and it was significant this indicate that payout ratio and liquidity was utilized by large non financial firms that had large assets which are highly liquid to pay dividends.

Further research should be carried out on financial firms in Kenyan markets to check reliability with the results. In addition other market based measures should be applied so as to examine the relationship of financial performance and dividend policy to give more insight on the state of affairs on Kenyan case.

VI. RECOMMENDATION

The researcher recommends the following;

1. Non financial Firms are recommended to inject the specific amount of equity to improve the capital structure along with leverage ratios in addition to focusing on matching of liabilities with the type of assets they own
2. Non financial firms should maintain a consistent dividend policy that balances the dual objective of appropriately rewarding shareholders through dividends and retaining capital in order to maintain a healthy capital adequacy ratio to support the future growth.
3. Incentives and goodwill to investors and firms on NSE is essential to accelerate growth and performance.

REFERENCES

- [1] Amal, Y.A., Sameer, A.A., & Yahya, Z.A. (2012). Factors affecting the financial performance of Jordanian insurance companies listed at Amman Stock Exchange, *Journal of Management Research*, ISSN 1941-899X, 4(2), 23-25.
- [2] Amidu, M.(2007). How does Dividend Policy affect Performance of the Firm on Ghana stock Exchange. *Investment Management and Financial Innovations*, Volume 4, Issue 2, 2007
- [3] Asif , A., Rasool W. and Kamal Y. (2011) Impact of financial leverage on dividend policy: Empirical evidence from Karachi Stock Exchange-listed companies. *African Journal of Business Management* Vol. 5(4), pp. 1 312-1324,
- [4] Brealey, R. and Myers, S. (1991). Principles of Corporate Finance, 5th edition, Irwin- McGraw- Hill Brockington (1987): "Dividend Policy in Perspective" *Journal of Finance*, June.
- [5] Crespo, J., Palokangas, T., & Tarasyev, A. (eds.) (2013). *Green growth and sustainable development*, Dynamic modeling and econometrics in economics and finance, vol. 14
- [6] Springer-Verlag Berlin Heidelberg Collins, M.C., Saxena, A.K. and Wansley, J.W. (1996). *The role of insiders and dividend policy: a comparison of regulated and unregulated firms*, Journal of Financial and Strategic Decisions, 9 (2), 1-9.
- [7] Deshmukh, S. (2005). *The effect of Asymmetric Information on dividend policy*. Quarterly Journal of Business and Economics. 44 (1/2), 107-127
- [8] Gill, A., Biger, N., & Tibrewala, R. (2010). Determinants of Dividend Payout Ratios: Evidence from United States. *The Open Business Journal* , III, 08-14.
- [9] Gordon, M. (1962). The savings, investment and valuation of a corporation. *Review of Economics and Statistics*, 37-51.
- [10] Kimunduu, G. M., Mwangi, M., and Kaijage, E. and Ochieng, D. E.,(2017) Financial Performance and Dividend Policy, *European Scientific Journal* October 2017 edition Vol.13, No.28 ISSN: 1857 – 7881 (Print) e - ISSN 1857-7431

- [11] Mistry, D. S. (2010). Determinants of Dividend Payout Ratio: A firm Level Study of Major Pharma Players in India. *The NEHU Journal*, VIII (2).
- [12] Mukanzi, S, Mukanzi, C. M and Maniagi, M. G, (2016). Influence of financial risk on return of on financial firms listed on Nairobi Security Exchange. *International Journal of Business and Management*. Vol 5, issue 10, ISSN 2319-801x
- [13] Musyoka, C. S. (2015). The Effect of Dividend Policy on the Financial Performance of Firms Listed at the Nairobi Securities Exchange. Unpublished MBA project, University of Nairobi. eMent Invention.
- [14] Namachanja, L., (2016). Effects of Dividend Policy on Financial Performance of Listed Commercial Banks in Kenya. Unpublished MBA project, University of Nairobi.
- [15] Pandey I.M., (2007). Corporate dividend policy and behaviour: *The Malaysian experience*. India Working paper no.2001-11-01.
- [16] Samuel and Wilkes (2011): Dividend and Retention Policy. MCGraw Hill Company Chicago
- [17] Simon-Oke, O. O. and Ologunwa O.P. (2016). the Effect of Dividend Policy on the Performance of Corporate Firms in Nigeria. *Journal of Management and Technology*. Maiden Edition, 111-120, June 2016
- [18] Shisia, A., Sang, W., Sirma, K. and Maundu, C. N. (2014). Assessment of Dividend Policy On Financial Performance Of Telecommunication Companies Quoted At The Nairobi Securities Exchange. *International Journal of Economics, Commerce and Management United Kingdom* Vol. II, Issue 10, Oct 2014 ISSN 2348 0386
- [19] Sunday O. K., Ajibola, A. D. & Tobechei, F. A. (2015). Factors Influencing Dividend Payout Policy Decisions of Nigerian Listed Firms. *International Journal of Economics, Commerce and Management United Kingdom* Vol. III, Issue 6, June 2015 Licensed under Creative Common Page 539
- [20] Yegon, C., Cheruiyot J. & Sang, J. (2014). Effects of Dividend Policy on Firm's Financial Performance: Econometric Analysis of Listed Manufacturing Firms in Kenya. *Research Journal of Finance and Accounting* ISSN 2222-1697 (Paper) ISSN 2222-2847 (Online) Vol.5, No.12, 2014, 103
- [21] Igan, D., de Paula A. & Pinheiro M. (2010) Liquidity and Dividend Policy MPRA Paper No.29409,