

# Effects of Dividend Policy on Firm's Financial Performance: Econometric Analysis of Listed Manufacturing Firms in Kenya

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## Abstract

Dividend policy occupies a major role in the financial management of an organization and serves as a mechanism for control of a managerial opportunism. The objective of the study is to ascertain the relationship between dividend policy and firm's profitability, Investment and Earning Per Shares. Data for the study were extracted from annual report and accounts of Nine (9) quoted manufacturing companies in Kenya. These data were subjected to regression analysis, using e-view software and the findings indicate that; 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. It is recommended that Organizations should ensure that they have a good and robust dividend policy in place because it will enhance their profitability and attract investments to the organizations.

**Keywords:** Dividend policy, Financial performance, Regression Analysis, Payout Policy

## 1. Introduction

The issue of dividend policy is a very important one in the current business environment. Dividend policy is the regulations and guidelines that a company uses to decide to make dividend payments to shareholders (Nissim & Ziv, 2001). The dividend policy decisions of firms are the primary element of corporate policy and has been an issue of interest in financial literature since Joint Stock Companies came into existence. Dividends are commonly defined as the distribution of earnings (past or present) in real assets among the shareholders of the firm in proportion to their ownership. It is basically the benefit of shareholders in return for their risk and investment and is determined by different factors in an organization. Basically, these factors include financing limitations, investment chances and choices, firm size, pressure from shareholders and regulatory regimes.

Dividend policy connotes to the payout policy, which managers pursue in deciding the size and pattern of cash distribution to shareholders over time. Managements' primary goal is shareholders' wealth maximization, which translates into maximizing the value of the company as measured by the price of the company's common stock. This goal can be achieved by giving the shareholders a "fair" payment on their investments. However, the impact of firm's dividend policy on shareholders wealth is still unresolved.

The area of corporate dividend policy has attracted attention of management scholars and economists culminating into theoretical modeling and empirical examination. Thus, dividend policy is one of the most complex aspects in finance. Three decades ago, Black (1976) in his study on dividend wrote, "*The harder we look at the dividend picture the more it seems like a puzzle, with pieces that just don't fit together*". Why shareholders like dividends and why they reward managers who pay regular increasing dividends is still unanswered. According to Brealey and Myers (2002) dividend policy has been kept as the top ten puzzles in finance. The most pertinent question to be answered here is that how much cash should firms give back to their shareholders? Should corporations pay their shareholders through dividends or by repurchasing their shares, which is the least costly form of payout from tax perspective? Firms must take these important decisions period after period (some must be repeated and some need to be revaluated each period on regular basis.)

Therefore, there are many factors affect the performance of corporate organizations and one of those factors is dividend policy. Empirical studies show that firms in developing Countries (e.g. Kenya) smooth on their income and therefore, their dividends. The pattern of corporate dividend policies not only varies over time but also across countries, especially between developed, developing and emerging Capital markets. If the value of a company is the function of its dividend payments, dividend policy will affect directly the firm's cost of capital. But is there any significant relationship between dividend policy and corporate performance in form of profitability, investment and Earning per Share? This is the question this research study intends to answer.

## 2. Objectives Of The Study

The main focus of the study was to empirically examine the possible impact a firm's dividend policy may have on financial performance of manufacturing firms listed in the Nairobi Securities Exchange. The secondary objectives of the study include, first, to ascertain if there is any significant relationship between dividend policy and firm's profitability. Secondly, to determine the impact of dividend policy on Investment. Lastly, to determine if there is any significant relationship between dividend policy and Earning per Share of Companies.

## 3. Review Of Related Literature

### 3.1 Theoretical Framework

#### 3.1.1 Bird-In-The-Hand Theory

The "Bird in Hand" theory of Gordon (1962) argues that outside shareholders prefer a higher dividend policy. They prefer a dividend today to a highly uncertain capital gain from a questionable future investment. A number of studies demonstrate that this mode fails if it is posited in a complete and perfect market with investors who behave according to notions of rational behavior (Miller and Modigliani, 1961; Bhattacharya, 1979).

#### 3.1.2 Signaling Theory

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

#### 3.1.3 Agency Theory

Even if a firm does not have free cash flow, dividend payments can still be useful for the shareholders in order to control the overinvestment problem. Easterbrook (1984) argues that dividends reduce the over investment problem because the payment of dividends increases the frequency with which firms have to go to equity markets in order to raise additional capital. In the process of attracting new equity, firms subject themselves to the monitoring and disciplining of these markets. This lowers agency cost.

### 3.2 Empirical Studies

The behavior of dividend policy is one most debatable issue in the corporate finance literature and still keeps its prominent place both in developed and emerging markets (Hafeez & Attiya, 2009). Many researchers have tried to uncover issues regarding the dividend dynamics and determinants of dividend policy but we still don't have an acceptable explanation for the observed dividend behavior of firms (Black, 1976; Brealey & Myers 2005). Dividend policy has been analyzed for many decades, but no universally accepted explanation for companies' observed dividend behavior has been established (Samuel & Edward, 2011). It has long been a puzzle in corporate finance.

Dividend is the return that accrues to shareholders as a result of the money invested in acquiring the stock of a given company (Eriki and Okafor 2002). While dividend policy on the other hand is concerned with division of net profit after taxes between payments to shareholders (ordinary shareholders) and retention for reinvestment on behalf of the shareholders (Kempner 1980). A difficult decision for both public and private limited companies is to determine the appropriate level of dividend to be paid to shareholders, and to decide whether or not to offer non-cash alternatives such as scrip dividends According to Davidson (1990). The existence of some share price reactions on dividend announcement prompts an analysis of the evidence for both shareholder clienteles and possible interaction of firms' dividend policies with key activities such as internal investments. An aspect of the theory of dividend policy is part of a continuum of control allocations between managers and investors, and hence cross-sectional variations in dividend policy are driven by an underlying factor. The allocation of controls between the manager and investors is important not because of agency or private information problems, but because of its potentially divergent beliefs that can lead to a disagreement about the value of project available to the firm. This underlying factor is "Corporate Performance". 'Corporate performance is at the heart of the managerial function of an organization' (Samuel 1989). Analysis of corporate performance is mainly concerned with the development of a modeling methodology to help in the diagnosis of past performance and thus provide a framework for evaluating the effect of changes in operating parameters as a guide for future planning. The performance of an Organization is measured by the choice of the management form of wealth to be held. If the performance of an organization is good there will be little or no disagreement between the management and the shareholders. (Ghosh and Subrata, 2006)

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business to generate revenues and expand its operations (Copisarow, 2000). Financial performance can be measured in many different ways, but all these ways should be aggregated. Revenue from operations, operating

income or cash flow from operations can be used as well as total unit sales. According to Demsetz and Lehn (1985), financial ratios from financial statements are a good source of data to measure financial performance. Liquidity is one of the most outstanding financial ratios used a measure of the firm's ability to meet financial obligations as and when they fall due without disrupting the normal business operations. Liquidity can be analysed both structurally and operationally.

Financial performance can also be measured in terms of net earnings which are divided into two parts, that is, retained earnings and dividends. The retained earnings of the business may be reinvested and treated as a source of long-term funds. The dividend should be distributed to the shareholders in order to maximize their wealth as they have invested their money in the expectation of being made better off financially. Nairobi Securities Exchange publication (2010) shows that CMC Holdings limited increased their payout ratio from 27.49% in 2009 to 28.28% in 2010 thus impacting positively on the stock prices from Ksh 15.35 in 2008 to Ksh 18.85 in 2009. It also shows that CFC Stanbic Bank limited changed their payout ratio from 32.05% in 2009 to 16.16% in 2010 thus impacting negatively on the stock prices from Ksh 129.00 in 2007 to Ksh 60.00 in 2008. Therefore, dividend policy has an effect on the share prices of NSE which in turn translates to financial performance based on shares turnover.

According to Maina (2000), there exists a relationship between dividend and investment decisions since both compete for internally sourced funds and given that funds obtained by debt are very expensive and not available to all firms. There are other theories that have been proposed to explain the relevance of dividend policy and its effect on firm performance, but no universal agreement has been reached (Stulz, 2000; Pandey, 2003; DeAngelo et al., 2006). A group of researchers: Amidu (2007), Lie (2005), Zhou and Ruland (2006), Howatt et al., (2009), have come up with different findings about the relationship between dividend payout and financial performance. Profitability is a type of performance measure which focuses on the relationship between revenues and expenses and on the level of profits with relative to the size of investment in the business (Zhou and Ruland, 2006). Four most commonly noted measures of firm profitability are: the rate of return on firm's total assets (ROA), the rate of return on firm's equity (ROE), operating profit margin and net firm income. Different measures of firm performance have also been employed to test agency cost hypothesis. It is argued that profit efficiency computed using a profit function is a more appropriate measure to test agency cost theory because it controls for the effects of local market prices and other exogenous factors. It also provides a reasonable benchmark for each individual firm's performance if agency costs were minimized. Profit efficiency is superior to cost efficiency for evaluating the performance of managers, since it accounts for how well managers raise revenues as well as control costs and is closer to the concept of value maximization. Profit efficiency is measured in two different ways, that is, standard profit efficiency and alternative profit efficiency.

According to Arnott and Asness (2003) the positive relationship between current dividend payout and future earnings growth is based on the free cash flow theory. Low dividend resulting in low growth may be as a result of suboptimal investment and less than ideal projects by managers with excess free cash flows at their disposal. This is prominent for firms with limited growth opportunities or a tendency towards over-investment. Paying substantial dividends which in turn would require managers to raise funds from issuance of shares, may subject management to more scrutiny, reduce conflicts of interest and thus curtail suboptimal investment. This is based on the assumption that suboptimal investments lays the foundation for poor earnings growth in the future whereas discipline and a minimization of conflicts will enhance growth of future earnings through carefully chosen projects. Therefore, paying dividends to reduce the free cash flows enhances the performance of a company since managers will have less cash flow thus avoiding suboptimal investments.

In evaluating Corporate Performance, the emphasis is on assessing the current behavior of the organization in respect to its efficiency and effectiveness. To measure overall corporate performance goals are set for each of these perspectives and specific measure for achieving such goals are determined. Each of these perspectives is critical and must be considered simultaneously, to achieve overall efficiency and effectiveness, and to succeed in the long-run. If any area is either over-emphasized or underemphasized, performance evaluation will become 'unbalanced'. In this way, the aim of the concept is to establish a set of measures both financial and non-financial, through which, a company can control its activities and balance various measures to effectively track performance.

Modigliani and Miller (1961) observed that 'The theoretical principles underlying the dividend policy and its impact on firms can be described either in terms of dividend irrelevance or dividend relevance theory'. Therefore, dividend policy is irrelevant for the cost of capital and the value of the firms in a world without taxes or transaction cost. This shows that when investors can create any income pattern by selling and buying shares, the expected return required to induce them to hold firm's shares will be invariant to the way the firm packages its dividend payments and new issues of shares. It is to be observed that a firm's assets, investments

opportunities, expected future net cash flows and cost of capital are not affected by the choices of dividend policy.

Agrawal and Jayaraman (2004) observed that Dividend payments and leverage policy are substitute mechanism for controlling the agency cost of free cash flow hence, improves performance. If a firm's policy is to pay dividend each year end to shareholders, the level of activity in the organization will increase to obtain more income and have excess retained earnings to meet the standard set. Brockington (1987) observed that 'Dividend policy has the effect of destabilizing dividend as only a prolonged increase or decrease in profits will affect the average sufficiency to have any appreciable effect on the size of the distribution'. Since it is a conservative dividend policy-in the long run, only one half of all profits will be distributed and there will be substantial buildup of retained earnings. This will certainly reinforce further, the consistency of dividends, which could for a while, be maintained even in the face of actual losses. It may also relieve the company of having recourse to external sources of finance. The retention under this policy bears no relationship to the availability of profitable investment opportunities. The risk is that projects yielding less than the true cost of capital will be undertaken in order to absorb funds which would otherwise lie idle. Samuels and Wilkes (2005) stated that the shareholders are entitled to a revenue stream of dividends. The value of the share corresponds to the present value of this stream of dividend payments.

Velnampy.T (2006) examined the financial position of the companies and the relationship between financial position and profitability with the sample of 25 public quoted companies in Sri Lanka by using the Altman Original Bankruptcy Forecasting Model. His findings suggest that, out of 25 companies only 4 companies are in the condition of going to bankrupt in the near future. He also found that, earning/total assets ratio, market value of total equity/book value of debt ratio and sales/total assets in times are the most significant ratios in determining the financial position of the quoted companies. Velnampy.T(2013) in his study of "corporate governance and firm performance" with the samples of 28 manufacturing companies using the data representing the periods of 2007 – 2011 found that determinants of corporate governance are not correlated to the performance measures of the organization. Regression model showed that corporate governance don't affect companies' ROE and ROA revealed that corporate governance measures are not correlated with performance measures. Velnampy.T and Nimalathasan, B. (2009) investigated the association between organizational growth and profitability of Commercial bank ltd in Sri Lanka over the period of 10 years from 1997 to 2006. They found that, sales are positively associated with profitability ratios except operating profit, return on equity and number of depositors are negatively correlated to the profitability ratios except operating profit and return on equity. Likewise, number of advances is also negatively correlated to the return on average shareholders' funds.

Miller & Modigliani (1961) argued that under certain simplifying assumptions, the dividend decision does not affect the value of a firm and is, hence, unimportant. Yet, traditional wisdom with changed postulations advocates that a properly managed dividend policy is vital to shareholders because it can affect share prices and shareholder's wealth. This argument is based upon two assumptions that there is no tax disadvantage to an investor to receiving dividends, and the second is that firms can raise funds in capital markets for new investments without bearing significant issuance costs. The proponents of the second school feel that dividends are bad for the average stockholder because of the tax disadvantage they create, which results in lower value. Finally, there are those in a third group who argued that dividends are clearly good because stockholders like them. Thus, despite voluminous research on dividends, corporate managers and financial economists still face what Black (1976) once described as a dividend enigma with pieces that just don't seem to fit.

Amidu (2007) found that dividend policy affects firm performance especially the profitability measured by the return on assets. The results showed a positive and significant relationship between return on assets, return on equity, growth in sales and dividend policy. This showed that when a firm has a policy to pay dividends, its profitability is influenced. The results also showed a statistically significant relationship between profitability and dividend payout ratio. A study by Howatt et al. (2009) also concluded that positive changes in dividends are associated with positive future changes in mean real earnings per share. Brigham (1995) where a firm's dividend policy is seen as a major determinant for a firms' performance. Similarly, Zakaria and Tan (2007) also stressed the fact that investments made by firms' influences the future earnings and future dividends potential. Nissim & Ziv (2001) showed that dividend increases were directly related to future increases in earnings in each of the two years after the dividend change Likewise, Zeckhauser & Pound (1990) in a related study found out that there is no significant difference among dividend payouts with or without large block shareholders.

Kale and Noe (1990) suggest that dividend acts as a signal of the stability of the firm's future cash flows. A survey of the extant literature reveal that the key determinants of dividend decisions include liquidity, after tax

earnings of the firm, cash flow considerations, future earnings, past dividend practices, returns on investment, legal requirements, growth prospects, inflation and interest rates. Brigham (1995) submit that dividends provide perhaps the best and most reliable signal. According to him, an increase in dividend, signals managements' confidence that future earnings will be strong enough to support new and higher dividend and vice versa. This view is corroborated Foong, *et al* (2007) when they noted that there is evidence to support the view that investors respond to dividend changes. For example, Fama and Babiak (1968) found a time series relation between annual dividends and earnings that is consistent with the view that dividend paying firms increase their dividend only when management is relatively confident that their higher payments can be maintained. However, Farsio et al. (2004) argue that no significant relationship between dividends and earnings hold in the long run and studies that support this relationship are based on short periods and therefore misleading to investors. They proposed three scenarios that would render the long-term relationship of dividends and future earnings insignificant. First, they point out that an increase in dividends may lead to a decline in funds that are to be reinvested by the firm. Firms that pay high dividends without considering investment needs may therefore experience lower future earnings (Farsio et al., 2004). There is thus a negative relationship between dividend payout and future earnings.

Most firms quoted on the Nairobi Stock Exchange have clearly defined dividend policies that are based on the general dividend practice in the industry. In our model, higher agreement between the manager and the investors implies a higher stock price. So the model predicts leverage and dividend payout ratio to be inversely related to the firm's stock price. However, Lintner, (1996) in a study of dividend policies of large Industrial Corporation in the United States suggested that in the majority of cases, current dividend decisions are intimately related to previous decisions. In the study, he concluded that management takes the existing dividend decision as a question of whether or not to change this rate in the current period. However, other views on the issues suggest that the dividend rate should be related to current earnings and must reflect changes in business conditions. The question therefore is how and why, a company should select a particular payout ratio and determine its rate of adjustment towards that particular rate? At this point, it is pertinent that we consider the factors affecting dividend policy of an organization. Lintner (1996) developed a model to study the determinants of the dividend behavior of American corporations by assuming that the dividend payout is a function of net current earnings after tax (PAT) and dividend paid during the previous year his findings revealed that payout a fixed proportion of their net profits as dividend to common stockholders especially when they are well-known for stable dividends policy and may try to achieve the target level of dividend or targeted payout ratio even whenever profit changes.

### 3.3 Determinants Of Dividend Policy Of A Manufacturing Firm

- **Dividend payout ratio:** Dividend payout ratio refers to the percentage share of the net earnings distributed to the shareholders as dividends.
- **Stability of dividends:** Dividend stability refers to the payment of a certain minimum amount of dividend regularly.
- **Legal, contractual and internal constraints and restrictions:** Legal stipulations do not require a dividend declaration but they specify the conditions under which dividends must be paid. Such conditions pertain to capital impairment, net profit and insolvency. Important contractual restrictions may be accepted by the company regarding payment of dividends when the company obtains external funds.
- **Owner's Considerations:** Dividend policy is also likely to be affected by the owner's considerations of the tax status of the shareholder, their opportunities of investment and the dilution of ownership.
- **Capital Market Considerations:** The extent to which the firm has access to the capital markets also affects the dividend policy. In case the firm has easy access to the capital market, it can follow a liberal dividend policy. If the firm has only limited access to capital markets, it is likely to adopt a low dividend payout ratio. Such companies rely on retained earnings as a major source of finance for future growth.
- **Inflation:** With rising prices due to inflation, the funds generated from depreciation may not be sufficient to replace obsolete equipment and machinery. So, organizations may have to rely on retained earnings as a source of fund to replace those assets. Thus, inflation affects dividend payout ratio in the negative side.
- **Legal Framework:** The Companies and Allied matters Act 1990 part II (379-382) provides the basis which dividends can be paid

### 3.4 Forms Of Dividend

Dividend originally is a distribution of profits earned by a joint stock company, among its shareholders. Mostly, dividend is paid in cash, but there are also other forms of dividend which are Cash Dividends, Stock Dividend, Script Dividend, Bond Dividend and Property Dividend.

## 4. Methodology

### 4.1 Model Specification

The model for the regression analysis is stated below;

$$DIVP = f(ROCE, FIXA, EPS)$$

Specifying in econometric format; we have;

$$DIVP = \beta_0 + \beta_1 (ROCE_{it}) + \beta_2 (FIXA_{it}) + \beta_3 (EPS_{it}) + \varepsilon_{it}$$

Where:  $DIVP$ ,  $\beta_0$ ,  $\beta_1$ ,  $\beta_2$ ,  $\beta_3$ ,  $\varepsilon_{it}$  represent dividends paid to shareholders, intercept term, impact on  $ROCE$ , impact on  $FIXA$ , impact on  $EPS$  and  $\varepsilon_{it}$  error term respectively.

$ROCE$ ,  $FIXA$  and  $EPS$  represent Return on Capital Employed, Fixed Assets and Earnings Per Share respectively.

### 4.2 Variables Description

**Table 1:** Measurement of Variables and Abbreviation

Variable	Measurement	Abbreviation
Dividend	Total Ordinary Dividends / No. of Ordinary Shares	DIVP
Return on Capital Employed	Operating Profits / Capital Employed*100	ROCE
Fixed Asset	Total Fixed Assets	FIXA
Earnings per Share	Profit After Tax / No. Of Ordinary Shares in Issue and Ranking of Dividend*100	EPS

### 4.3 Sources Of Data

The data for this study are secondary data generated from annual reports and accounts of nine (9) randomly selected manufacturing companies quoted on the Nairobi stock exchange. This was for a ten year period, covering the period 2003 to 2013.

The data obtained from the various financial statements in their financial year end of 2013 are presented in table 1.

**Table 1:** Variables Extracted and Computed from Financial Statements

S/N	Name of Company	Dividend Per Share (N/K)	Return on Capital Employed (%)	Earnings Per Share (N/K)	Fixed Assets (N)'000
1	B.O.C Kenya Ltd	0.08	3.25	1.54	12,865,765
2	British American Tobacco(K)Ltd	0.25	23.58	6.59	31,865,146
3	Carbacid Investments Ltd	4.00	236.44	34.20	7,578,984
4	East African Breweries Ltd	0.10	5.57	1.24	8,344,863
5	Mumias Sugar Co. Ltd	1.25	102.96	110.22	10,756,986
6	Unga Group Ltd	0.05	2.21	0.05	6,125,986
7	Eveready East Africa Ltd	0.75	17.53	43.12	9,456,876
8	Kenya Orchards Ltd	0.25	6.51	3.70	34,453,467
9	A.Baumann Co. Ltd	0.30	39.50	3.75	22,446,874

**Source:** Nairobi Stock Exchange Fact book and Annual Reports and Account 2013.

## 5. Data Analysis And Discussion Of Results

This study uses linear panel data regression methods to evaluate the impact of dividend policy on firm's financial performance of some selected manufacturing firms listed on the Nairobi Securities Exchange. The data were then analyzed using multiple regression analysis with the aid of e-view software. The result of the analysis is presented below in table 2;

**Table 2:** Iterative Regression Method

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-4.653247	3.368612	-1.381354	0.1832
ROCE	0.021953	0.019774	1.110180	0.2808
FIXA	6.56E-08	5.83E-09	11.25369	0.2808
EPS	0.013386	0.012564	1.065397	0.3000
AR(1)	1.659286	0.130175	12.74662	0.0000
R-squared	0.940729	Mean dependent var		14.21177
Adjusted R-squared	0.928251	S.D. dependent var		35.49828
S.E. of regression	9.508569	Akaike info criterion		7.525316
Sum squared resid	1717.845	Schwarz criterion		7.770743
Log likelihood	-85.30379	F-statistic		75.39051
Durbin-Watson stat	1.983739	Prob(F-statistic)		0.530000

Source: E-View Output.

Specifying in econometric format, we have;

$$\text{DIVP} = -4.653247 + 0.021953\text{ROCE} + 6.56\text{FIXA} + 0.013386\text{EPS}$$

$$\text{T-Ratio} = (-1.381354) (1.110180) (11.25369) (1.065397)$$

$$\text{R-Squared} = 0.940729, \quad \text{R-Squared Adjusted} = 0.928251$$

$$\text{D.W Stat} = 1.983739 \quad \text{f-stat} = 75.39051$$

From the result presented above, we can see that autonomous DIVP is negative when all other variables are held constant. Consequently, a unit change in DIVP will result into a positive change of about 0.021953 units in ROCE less the autonomous component when all other variables are held constant. Also a unit change in DIVP will result in a positive change of about 6.56 units in FIXA less the autonomous component and all other variables held constant. Furthermore, a unit change in DIVP will result in a positive change of about 0.013386 units in EPS less the autonomous component and all other variables held constant.

Using the T- ratio to test for their statistical significant, we find out that the FIXA variable is statistically significant. This is due to the fact that it's observed T- value is positive and more than the 'rule of thumb' of 2. The other variables are not statistically significant because their observed t -values are less than the rule of thumb of 2. From the R- squared of 0.940729, the regression co-efficient indicate that about 94% of the changes in the dependent variable is explained by the changes in the independent variables. The D.W statistic of 1.983739 indicates the absence of auto – correlation since it is in the neighborhood of the rule of Thumb of 2.

## 5.1 Test Of Hypotheses

The hypotheses are stated below;

**Ho<sub>1</sub>:** There is no significant relationship between dividend policy and firm's profitability

**Ho<sub>2</sub>:** There is no significant relationship between dividend policy and investment.

**Ho<sub>3</sub>:** There is no significant relationship between Earning Per Share and Dividend policy.

The hypotheses above were tested by considering the f - tabulated and f- calculated values.

### 5.1.1.1 Decision Rule

Reject the null hypothesis if the f-calculated is greater than the f –critical (table value) at 5% level of significance.

### 5.1.1.2 Decision

A comparative analysis of both the f - calculated value of 75.39051 and f- tabulated of 0.5300 shows that the f-calculated is higher than the f-tabulated. We therefore reject the null hypotheses and accept the alternate hypotheses which mean that there is a significant positive relationship between dividend policies, firm's profitability, investments and Earnings Per Share of organizations. The findings of the study can therefore be summarized as follows; First, There is a significant positive relationship between dividend policies of organizations and profitability. Secondly, there is a significant positive relationship between dividend policies of organizations and investments. Lastly, there is a significant positive relationship between dividend policies of organizations and Earnings per Share.

## 6. Summary And Conclusion

The study sought to investigate the impact of dividend policies on the financial performance of corporate organizations in manufacturing sector in Kenya. In order to achieve the objectives of the study, data were obtained from 2013 financial year of nine (9) manufacturing companies quoted on the Nairobi Stock Exchange. From the data obtained, various variables were extracted and computed to enable adequate analysis to be carried out. From the result of the analysis, it was discovered that the dividend policies of organizations have a significant positive relationship with profitability, investments and Earnings Per Share of corporate organizations. We can therefore conclude that dividend policies of organizations are vital in enhancing the profitability and investment of manufacturing sector in Kenya.

## 7. Recommendations

Based on the findings of this research study, the following recommendations are made. First, Organizations should ensure that they have a good and robust dividend policy in place. This will enhance their profitability and attract investments to the organizations. Secondly, directors of corporate organizations should be made to update the records of shareholders including their next-of-kin to avoid a deliberate diversion or undue retention of unclaimed dividend warrants. Due procedures for the recognition and utilization of profit arising from investment of unclaimed dividend should be effected and properly accounted for. Thirdly, a more stringent level condition should be established to compel directors to only invest in profitable ventures, report the utilization of retention earnings through notes to the accounts. Lastly, Government should set up a body that will help to manage unclaimed dividends and also ensure that situations that give rise to such are minimized.

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