Financial Performance and Dividend Policy

Geoffrey Mbuva Kimunduu, PhD Candidate
Mirie Mwangi, PhD, Senior Lecturer
Prof. Erasmus Kaijage, PhD, Senior Lecturer
Duncan Elly Ochieng, PhD, Lecturer
University of Nairobi, School of Business,
Department of Finance and Accounting, Nairobi, Kenya

Doi: 10.19044/esj.2017.v13n28p138 URL:http://dx.doi.org/10.19044/esj.2017.v13n28p138

Abstract

Past studies on the relationship between dividend policy and firm performance continue being an unresolved predicament with few studies interrogating the causality relationship between financial performance and dividend policy. The purpose of this study was to establish the nature of relationship between financial performance and dividend policy of firms listed at the Nairobi securities exchange. The study applied positivism research philosophy and descriptive causal research design. The study was anchored on hypothetical view that the relationship between financial performance and dividend policy of firms listed at the Nairobi securities exchange is not significant which was tested against a sample size of 31 firms listed at the Nairobi securities exchange selected using purposive sampling technique. The research findings were as follows: 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. In addition, it was established that there was a statistically significant positive linkage between operating cash flows and dividend policy which denotes that as cash flow levels from operating activities change, dividend payout ratio will change in the same direction leading to increased distribution of cash dividend to investors. Also, a statistically significant direct connection between price earnings and dividend policy was established. This relationship shows that increase in share market value positively prompts increased dividend payout ratio whereby the management follow a more acceptable dividend policy by the shareholders. However, market to book value depicted a weak insignificant inverse relationship with dividend policy and was dropped. In general it was concluded that the link between financial performance and dividend policy of firms listed at the

Nairobi securities exchange was significant. The study outcome augment existing knowledge on financial performance and dividend policy for it is evident that firms with ability to generate income directly influence dividend payout ratio and therefore, top management should focus on financial performance strategies and not dividend policy which is irrelevant. Regulatory bodies such as Capital Market Authority and Centre for Corporate Governance use these research findings to improve their financial viability assessment approach of firms listed at the Nairobi securities exchange.

Keywords: Financial Performance Dividend Policy

Introduction

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 (Alii, Khan & Ramirez, 1993). Dividend policy is the schemes and rules followed by the management when rewarding the owners of the firm for investing their financial resources in that venture (Nissim & Ziv, 2001). Kehinde and Abiola (2001) defined dividend policy as a plan that guide management to distribute the returns of a firm to the common stock investors using diverse forms of dividends within a certain period of time. The scheme followed by a firm to distribute income, aims at achieving specific goals (Brigham & Ehrhardt, 2012). According to Litner (1956), management continuously alternate the rate of dividend payments until it reaches an optimal dividend policy level in the long run. Hence dividend policy is summarized into three perspectives; the amount to pay, the frequency of dividend payments and the mode of paying dividends which is either in cash or non-cash form.

The amount paid to shareholders by the management is further guided as either residual or stable dividend policies. The residual policy is employed by companies which rely on retained earnings to facilitate profitable projects identified (Aduda & Kimathi, 2011). This approach is applicable once all financing requirements of the firm have been met. Myers (1984) argued that firms distribute cash dividends to shareholders once all ventures which are viable have been fully financed using firm earnings. The implication of this action is that firms give first priority to the available profitable investment opportunity and then reward shareholders with cash dividends in case there are some cash residuals. Hence, the amount of cash to be distributed to the shareholders is determined by the cash remnants after capital investment.

Contrary to residual approach, stable dividend policy entails payment of regular installments of a specific cash dividend quantity on yearly basis

regardless of company return fluctuations (Ap Gwilym, Morgan & Thomas, 2000). Such guidelines include; fixed payout policy, fixed dividend per share policy and low-regular plus extra policy. The constant payout policy involves fluctuating periodical distribution of cash dividend to shareholders for the dividend plan is guided by a predetermined fixed proportion of the firm earnings. The shortcomings of this approach arise when earnings drop or worsen. In such a case the company experiences losses hence it will be forced to pay less or no dividend at all. This makes investors less assured of their cash dividend reward (Brigham & Ehrhardt, 2012).The constant dividend per share is a dividend scheme whereby management sets a fixed amount of cash dividend per share to be paid to shareholders at any given period of time which translates to a periodical constant rate of change on dividend paid. This reduces uncertainty on future dividends since dividends become more predictable and as a result, the management makes an upward adjustment of cash dividend to be paid to shareholders if they are assured of permanent future firm earnings (AP Gwilym *et al*. 2000)

The low-regular plus extra policy involves payment of low regular dividends supplemented by an additional dividend whenever the company's earnings are good or higher than normal in a given dividend period. The dividend strategy is convenient to the management for it can match low income seasons and high income periods with low to high rates of cash dividend in that order. This dividend arrangement creates confidence to shareholders for they are assured of at least some returns even during the loss making periods of the firm and also share improved returns when the firm has made a fortune in a particular period of time (Marsh, 2012).

Frequency of dividend payment is taken to imply the dividend timing which in the Kenyan context is commonly done semiannually (interim dividend) or at the end of the financial period (proposed dividend). Interim dividend is that part of total surplus declared and paid before the end of the financial period and the time intervals for making such payments is either quarterly or semiannually(IASB, 1998). Prior to payment of interim dividend, the accounting books of the firm are checked and confirmed by auditors. Final dividend, also known as proposed dividend is that part of firm earnings that is declared by the management at the end of the financial period to be paid at a later date based on audited financial results. In addition, the interim dividend paid in the course of the financial period, is assumed to be the final reward to the shareholders if the firm does not provide for final dividend (IASB, 1998). The current study used interim to total dividend ratio and dividend payout ratio to measure dividend policy (Maniagi *et al.* 2013).

Distribution of dividends to shareholders is also based on the manner of rewarding. The mode of distributing dividends to shareholders was

classified by Copeland (1979) as cash and non-cash form. Although distribution of firm wealth is commonly done through cash dividend. In such a case, shareholders get a chance to invest the cash received in other opportunities of their choice, whereby the act adversely affect the firm net asset value. This is because payment of cash dividend entails an actual cash outflow which calls for taking precautions to avoid damage of liquidity position of the firm; hence a safety cash reserve is required. Fakru and Thoufiqulla (2013) defined stock dividend as the distribution of additional shares to the already existing shareholders free of charge. It is also referred to as of bonus or script issue. To measure bonus issue, Kibet *et al.* (2016) established a bonus ratio expressed as number of new shares (bonus) to existing shareholders per annum. Property is sometimes used as dividend whereby the shareholders are allocated physical assets instead of cash or additional free stocks.

The link between dividend policy and financial performance is governed by Jensen and Meckling (1976) agency theory which advocates that two parties, namely; the shareholder and the manager are in harmony in their interests. Modigliani and Miller (1961) argued that firm value and financial performance is associated to the ability of a firm to generate more earnings hence dividend policy is ineffective determinant of firm financial performance (dividend irrelevance theory). Also, dividend policy is assumed to be a communication signal to pass valuable information to investors concerning future financial performance of the firm hence underpinned by the signaling theory (Al-Kuwari, 2009).

Leah (2008) defined financial performance as the measurement of the outcome of firm strategies, policies and operations in monetary terms. These results are reflected in the firm return on assets and return on investments. Similarly, Adams and Mehran (2005) defined financial performance as the end result of primary utilization of firm assets to generate proceeds during ordinary business operations. Financial performance can also be used as a general measure of a firm overall financial level over a particular time duration and can be used for comparison of general performance of different firms operating in the same industry. In general, financial performance is a gauge to express the general financial productivity of an organization over a span of financial period and aids in comparison of financial results of other firms in the same sector. Also, the level of financial performance explains the extent to which a firm has succeeded (Waweru, 2008). There is no one universally accepted proxy for measuring financial performance of a firm. From a wider perspective, financial performance of a firm takes both accounting and market based dimensions (Waggoner, Neely & Kennerley, 1999).

The accounting based proxies used to measure financial performance are diverse and some of those measurements are; return on equity, earnings per share, return on assets and operating cash flows(Al-Malkawi, 2007). The shortcomings of using accounting based indicators is that it represents a short term financial performance implication to the management and also their values are determined from historical data and therefore they cannot be fully relied upon to make future firm decisions (Klapper & Love, 2002). Another limitation of using these proxies is that they are anchored on Accounting based professional rules, regulations and standards. However, operating cash flows being one of the Accounting based proxies, it is least adversely influenced by the accounting practices (Ahmed & Javid, 2009). Current study used ROE and operating cash flows as accounting based approaches to measure financial performance of the firms under study. Return on equity is the profit after tax to total equity quotient (Al-Malkawi, 2007). Operating cash flows is expressed as the coefficient of the sum of profit after taxation and noncash items and total assets net of cash and cash equivalents (Millet-Reyes & Zhao, 2010).

The market based indicators commonly used in measuring financial performance of a firm are wide-ranging. Some of those proxies are; Tobin's Q, market to book value, dividend yield and price earnings which are futuristic and long term in nature. These market-based proxies represent the expectations of the shareholders on the firm future performance (Omran & Pointon, 2004). The current study used market to book value and price earnings to gauge financial performance. The market to book value is a coefficient representing the ratio of market to book value of common stock (Fairchild & Li, 2005) whereas, price earnings is a coefficient of market price of common stock and earnings per share of a firm (Ehikioya, 2009).

Literature Review

The concept of dividend policy has faced unresolved argument by researchers although it is a pivotal decision for the prosperity of firms in both advanced and upcoming economies (Hafeez & Attiya, 2009). The dynamics of dividend policy has remained anonymous in most study findings focusing on its relationship with other associated variables. The firm dividend policy practices by different firms has not been universally accepted (Brealey & Myers, 2003).

Maladjian and El Khoury (2014) sought to investigate the determinants of dividend policy of Lebanese banks, listed at the Beirut stock exchange. To examine this matter, seven variables were put under consideration, namely; firm productivity in terms of profitability, liquidness, debt equity coefficient, size of the firm, firm growth rate, risk profile and dividend payout ratio for the previous period. The study used unbalanced

panel dataset of listed banks between 2005 and 2011. Two approaches were tested using the ordinary least squares and the dynamic panel regressions. It was depicted that a proportionate change of the size of the firm, risk level of the firm and previous year's dividend payout led to a proportionate change in dividend payout ratio. Whereas a simultaneous upward change in firm growth rate and earnings lead to less attractive change in dividend payout ratio.

Hashim *et al.* (2013) investigated on the determinants of dividend policy as it was in the case of Maladjian and El Khoury (2014) study. They focused on firms dominating the Pakistan banking sector. In their case, they identified nine independent variables, namely; firm size, leverage, agency cost, firm growth rate, risk, liquidity, profitability, previous year's dividend and ownership structure. A sample size of twenty seven (27) overseas and local financial firms which provided banking services in both Islamic and orthodox sectors were selected for the study. The researchers utilized stepwise regression methodology and three study outcomes were realized. One, the study revealed that liquidity, profitability, last year's dividend and ownership structure had a strong direct link with dividend payout ratio. Second, liquidity depicted a negative relationship with dividend payout ratio and third, dividend payout ratio was not significantly influenced by size of the firm, leverage, agency cost, firm growth rate and risk level of the firm. Therefore in these research findings, it was ruled out that dividend payout ratio was high where the firm engaged in profitable ventures compared to less profitable ones although Maladjian and El Khoury (2014) established an indirect connection between profitability and dividend payout ratio, contrary to Hashim *et al.* (2013) study outcome.

Uwuigbe (2013) study investigated on the nature of linkage between financial performance and dividend policy of listed firms at the Nigerian stock exchange. The objective of the study was to examine the effects of financial performance, firm size, financial leverage and board independence on dividend payout ratio of firms listed at the Nigerian stock exchange market. Purposive sampling technique was used to select fifty (50) firms for the study. The financial records for the period between 2006 and 2011 were used to collect the relevant data. Regression methodology was used for data analysis where by it was established that the association between dividend payout ratio and firm size, board independence and financial performance was proportional and statistically significant for firms listed at the Nigerian bourse.

Kajola, Adewumi and Oworu (2015) sought to find out the nature of linkage between dividend payout ratio and financial performance of non-financial firms registered at the Nigerian stock exchange. A sample size of twenty five (25) firms was selected for the study and secondary data was

collected for a period of ten years, from 2004 to 2013. Both panel data and pooled ordinary least squares regression models were employed to establish the coefficient of predictor and the control variables respectively. Profitability was used as the predictor variable whereby it was measured using rate of return on assets whereas dependent variable was dividend policy which was measured using the dividend payout ratio. The study by Kajola *et al.* (2015) classified firm size, asset tangibility and leverage as control variable. The study findings revealed that a proportionate change in dividend payout ratio resulted to a proportionate change in financial performance of the firms. In conclusion, the study recommended that firms should dedicate their time to determine the appropriate dividend policy that propels projects with positive NPV value. Dividend payout and return on assets used in the study are only a component of dividend policy and financial performance respectively and does not fully represent all dimensions of the two variables.

Dogan and Topal (2014) carried out an investigation in their study to find out whether there existed a relationship between dividend policy and financial performance of firms listed at the Istanbul stock exchange. The study used data of 172 non-financial companies within a time span of four (4) years from 2008 up to 2011. To achieve the objective of the study, the firms were classified into two categories. The first category was made up of those firms which paid cash dividends regularly and group two was composed of those firms which paid cash dividends following irregular trends. The study investigated whether there was significant difference between accounting and market based financial performance between those two groups in relation to dividend policy. Further, an empirical analysis was undertaken using multiple regression and t-test as well as descriptive statistics to determine the outcome. The results of analysis showed that dividend payments had influence on companies' financial performance. Furthermore, the connection between dividend per share within groups and Tobin's q which is a market based performance indicator was direct and statistically significant. Whereas, there was a statistically insignificant relationship between accounting based performance indicators (ROA and ROE) and dividend per share.

Murekefu and Ouma (2012) interrogated the relationship between dividend payout and firm performance of firms listed at the Nairobi securities exchange. Data obtained for the study was secondary for it was gotten from the financial statements of the listed firms. The study covered a time range of nine years, from 2002 to 2010. To measure dividend payout, actual amount of cash paid was used while for firm performance, profit after tax was used as proxy. Multiple regressions were performed and the outcome of the study showed that dividend payout ratio directly influenced firm

performance and the association was strong. It was concluded that dividend payout ratio is a key predictor of firm performance. The study recommended that managers should dedicate enough time to develop an appropriate dividend policy to boost firm performance. The study by Murekefu and Ouma (2012) is also supported by Arnott and Asness (2003) who posited that anticipated future earnings of the firm are affiliated to high dividend payout ratio in the previous period. That is, if management distributes more cash dividends to the shareholders in the current dividend period, this strategy will initiate improved financial performance in the following financial period.

Research Problem

The nature of association between financial performance and dividend policy of firms has faced unresolved debate by researchers for a substantial period of time (Dada, Malomo & Ojediran, 2015). For firms with increased returns, Litner (1956) argued that it is more sensible to reflect such financial outcome by distributing more cash dividends to the shareholders. Financial performance and dividend policy studies were dominated by firms listed at securities exchange located in developed countries such as United States of America (USA), Britain and Japan while firms in emerging economies were ignored (Maniagi *et al.* 2013). Globally, empirical literature showed diversified findings regarding relationship between financial performance and dividend policy. Maladjian and El Khoury (2014) carried out a study in Lebanon and found that dividend payout policy of firms listed at the Beirut stock exchange was determined by previous financial period dividends declared, firm size and risk level. Firm growth rate and profitability portrayed an inverse relationship. In Pakistan, it was established that, firms in the banking sector were prompted to distribute dividends proportionately to profitability levels (Hashim, Shahid, Sajid & Umair, 2013). In Kenya, a study carried out by Odawo (2015), revealed that dividend policy of firms listed at the Nairobi securities exchange depend on the firm liquidity, debt equity ratio, profitability and firm size. Bulla (2013) sought to investigate the causes of variations in dividend policy of public firms listed at the Nairobi securities exchange. The factors under consideration in this study were; current firm returns, dividend yield and the size of the firm. It was established that the three factors influenced dividend payout ratio in a significant manner.

Data and Methodology

The study relied on positivism philosophy and adopted descriptive causal research design for it involved analyzing of the relationship between financial performance and dividend policy to determine cause-effect

implications. The study population was 46 firms listed at the Nairobi securities exchange out of which 31 firms were selected as a sample for analysis using purposive sampling technique. Data was collected using audited financial statements of the relevant firms kept which was found in both Nairobi securities exchange and Capital market authority websites. The longitudinal panel data obtained covered a period of eleven years, from January 2005 up to December 2015. Using STATA software 13, inferential analysis was performed on variables using hierarchical regression models. The financial performance was the independent variable and was operationalized as return on equity, operating cash flows, market to book value and price earnings ratio. Dividend policy was the dependent variable in the study and was measured using two proxies, namely; interim to total dividend ratio and dividend payout ratio.

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

$DP_{it} = \beta 0 + \beta 1 ROE_{it} + \beta 2 OCF_{it} + \beta 3 MTB_{it} + \beta 4 PE_{it} + \varepsilon_{it}$

Where:

DP_{it} is dividend policy (composite) of firm j in time t

ROE_{it} is Returns on Equity of firm j in time t

OCF_{it} is Operating Cash Flows of firm j in time t

MTB_{it} is Market to Book value of firm j in time t,

PE_{it} is the Price Earnings of firm j in time t

β_0 is the y intercept or regression constant

β_1 …..β_4 are regression coefficients

ε_{it} is the random error term.

Data on financial performance and dividend policy was analyzed using descriptive statistics of mean, standard deviation, skewness (SK) and kurtosis (KU) while hierarchical regression analysis was employed in establishing the relationship between the variables

Results and Discussion

The data for the variables of study concern was assembled from 31 firms listed at the Nairobi securities exchange and a summary of the descriptive statistics outcome was represented in Table 1 and 2 which generally depicted that indicators of both dividend policy and financial performance were normally distributed with dismal deviation. The linear regression results are shown in Table 3.

Table 1: Summary of Descriptive Statistics for Dividend Policy

Variable	N	Mean	SD	SK	KU
DP	341	0.20	0.26	0.49	8.74

SD is standard deviation, SK is skewness, KU is kurtosis

Source: Research Data

Table 2: Summary of Descriptive Statistics for Financial Performance

Variable	N	Mean	SD	SK	KU
ROE	341	-4.19	2.18	-0.78	6.01
OCF	341	0.09	0.15	8.57	123.43
MTB	341	2.02	4.63	7.65	74.43
PE	341	4.65	2.44	0.24	15.9

SD is standard deviation, SK is skewness, KU is kurtosis
Source: Research Data

Table 3: Regression Results for Financial Performance as Explanatory Variable and Dividend Policy as Response Variable

Variables	Model 1[a]	Model 2[b]	Model 3[c]	Model 4[d]
Constant	.290(0.000)	.240(0.000)	.179(0.000)	.176(0.000)
ROE	.021(0.001)	.019(0.000)	.039(0.000)	.044(0.000)
OCF		.462(0.002)	.319(0.001)	.308(0.004)
PE			.034(0.000)	.042(0.000)
MTB				-.006(0.078)
Adjusted R^2	0.0286	0.0954	0.1621	0.1297
F statistic	11.02 (0.001)	18.93(0.000)	22.93(0.000)	18.09(0.000)

p – Values in parenthesis
a. Predictors: (Constant), ROE
b. Predictors: (Constant), ROE, OCF
c. Predictors: (Constant), ROE, OCF, MTB
d. Predictors: (Constant), ROE, OCF, MTB, PE

From the hierarchical regression results in Table 3, four models were generated. All the four models reported a significant F value ($p < .05$). Model 3 had the highest value of F ($F=22.93$, $p < .05$) followed by model 2 with ($F=18.93$, $p < .05$), model 4 was ranked the third with the computed F statistic ($F=18.09$ $p<0.05$) while model 1 had the lowest computed F statistic ($F=11.02$, $p < .05$). The four models were further subjected to other goodness of fit tests as discussed below.

The adjusted coefficient of determination (R^2), which indicates the proportion of variation in the dependent variable that is explained by all the independent variables taken together, was highest in model 3 with ($R^2=0.1621$) and lowest in model 1 with ($R^2=0.0286$). The four models were further subjected to test of the slope. The aim of this test was to determine the strength of the relationship between the dependent variable and each independent variable for all the models were significant although some of the coefficients (β) were trivial. The outcome of test of the slope was then performed and also reported in Table 3 above. The research findings indicated that market to book value (MTB) was not a significant predicator of dividend policy ($\beta = -.006$, $p>.05$). The beta coefficient was not different from zero since ($\beta = -.006$) and therefore this variable was removed from the

model. Model four which comprised of the four independent variables was therefore dropped at that point. Model three showed that PE had a beta coefficient of (β =0.034) which was trivially small although it was significant ($p < .05$). For OCF, the slope had a value of ($\beta = 0.319$) and was statistically significant ($p< .05$) and ROE had a coefficient of ($\beta = 0.039$, $p< .05$).

Therefore, return on equity, operating cash flows and price earnings jointly explaining 16.21% of variations in dividend policy. Model one and two with ROE and OCF as independent variable were significant although ROE had a trivial coefficient. Model three was a better estimator of dividend policy for OCF had a high coefficient value while ROE coefficient improved from 0.021 to 0.039, PE had a $\beta = 0.034$ and the three variables were significant($p< .05$).

The analytical model was thus specified as;

$DP_{it}= .179 + .039ROE + .319OCF + .034PE.$

Conclusion

The hierarchical regression results revealed that there was a positive significant relationship ($p<0.05$) between dividend policy and ROE. Similarly there was a significant ($p<0.05$) direct relationship between dividend policy and OCF. In addition, the results showed that there was a significant positive relationship ($p<0.05$) between price earnings and dividend policy. In general, it was concluded that the relationship between financial performance and dividend policy of firms listed at the Nairobi securities exchange was significant although the directional changes were guided by the specific financial performance proxies used to predict dividend policy. Therefore the top management of firms listed at the Nairobi securities exchange should embrace financial performance strategies which enhance firm earnings which in return trigger increased dividend payouts. Similarly, firm management should efficiently manage operating cash flows for it has a significant direct contribution to the firm ability to improve dividend payout ratio. The current research findings were confirmed by Hashim *et al.* (2013) study where by it was established that an equal change in financial performance value lead to the same change in dividend payout ratio value.

References:

1. Adams, R. B. & Mehran, H. (2005). Corporate performance, board structure and its determinants in the banking industry, in EFA, Moscow meetings.
2. Aduda, J. O. & Kimathi, H. (2011). The Applicability of the constant dividend model for companies listed at the Nairobi stock exchange,

Journal of Financial Studies & Research, pp. 1-38.

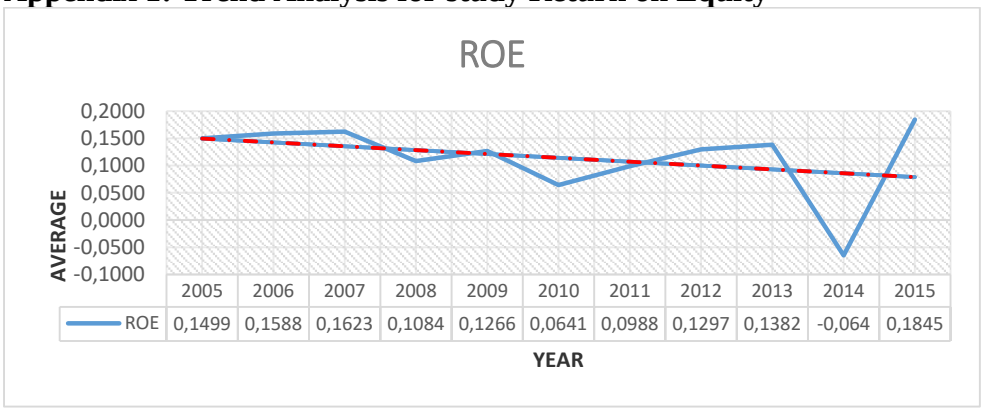
3. Ahmed, H. & Javid, A. Y. (2009). Dynamics and determinants of dividend policy in Pakistan: evidence from Karachi stock exchange non- financial listed firms. *Journal of Finance and Economics*, *25*(1), 148-171.
4. Alii, K. L., Khan, A. Q. & Ramirez, G. G. (1993). Determinants of corporate dividend policy: *A factorial analysis*, *Financial Review*, *4*(28), 523-547.
5. Al-Kuwari, D. (2009). Determinants of the dividend payout ratio of companies listed on emerging stock exchanges: The case of the Gulf Cooperation Council (GCC) countries. *Global Economy & Finance Journal*, *2*(2), 38-63.
6. Al-Malkawi, H. (2007). Determinants of corporate dividend policy in Jordan: An application of the Tobit Model, *Journal of Economics and Administrative Sciences*, *23*(2), 44-70.
7. Ap Gwilym, O., Morgan, G. & Thomas, S. (2000). Dividend stability, dividend yield and stock returns: UK evidence. *Journal of Business Finance and Accounting*, *27*(3), 261-281.
8. Arnott, R. & Asness, C. (2003). Surprise! Higher dividends = higher earnings growth. *Financial Analysts Journal*, *59*(1), 70-87.
9. Brealey, R. A. & Myers, S. C. (2003). Principles of corporate finance (7th ed.). New York: McGraw Hill.
10. Brigham, E. F. & Ehrhardt, M. C. (2012). Financial management: Theory and practice, 13th edition, South-Western publication.
11. Bulla, D. M. (2013). An empirical analysis of selected factors affecting dividend policy of listed firms at the Nairobi securities exchange. African Journal of Accounting, Economics, Finance and Banking Research, 9(9), 14-23.
12. Copeland, T. E (1979*)*. Liquidity changes following share splits. *Journal of Finance*, *1*(34), 115-141.
13. Dada, F. B., Malomo, E. & Ojediran, S. (2015). Critical evaluation of the determinants of dividend policy of banking sector in Nigeria, *International Journal of Economics Commerce and Management*, *3*(2), 1-11.
14. Dogan, M. & Topal, Y. (2014). The influence of dividend payments on company performance: The Case of Istanbul Stock Exchange (BIST). *European Journal of Business and Management*, *3*(6), 189-197.
15. Ehikioya, B. (2009). Corporate governance structure and firm performance in developing economies: Evidence from Nigeria. Q Emerald Group Publishing Limited, 9(3), 231-243.

16. Fairchild, L. & Li, J. (2005). Director quality and firm performance. *The Financial Review, 40*(2), 257–279.
17. Fakru, K.Y. & Thoufiqulla, P. (2013). An analysis of bonus share issued and its impact on share price with reference to listed stocks in India. *Acme Intellects International Journal of Research in Management, 4*(4), 1-13.
18. Hafeez, A. & Attiya, Y. J. (2009). The Determinants of dividend policy in Pakistan, *International Research Journal of Finance Economics, 1*(25), 148-171.
19. Hashim, Z., Shahid, R., Sajid, I. & Umair, A. (2013). Determinants of dividend policy: A case of banking sector in Pakistan, *Middle East Journal of Scientific Research, 18*(3), 410-424.
20. IASB. (1998). International Accounting Standard 34, International Accounting Standards Board, IFRS Foundation.
21. Jensen, M. C. & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs, and ownership structure, *Journal of Financial Economics, 4*(3), 305-360.
22. Kajola, S. O., Adewumi, A. A. & Oworu, O. O. (2015). Dividend pay-out policy and firm financial performance: evidence from Nigerian listed non-financial firms. *International Journal of Economics, Commerce and Management, 3*(4), 1-12.
23. Kehinde, J. S. & Abiola, J. O. (2001). Foundation of Financial Management, Life Spring House publisher Agege, Lagos (Nigeria).
24. Kibet, W. T., Jagongo, A. O. & Ndede, F.W. S. (2016). Effects of dividend policy on share price of firms listed at the Nairobi Securities Exchange, Kenya. *Research Journal of Finance and Accounting, 8*(7), 220-230.
25. Klapper, L. & Love. I. (2002). Corporate governance, investor protection, and performance in emerging markets. Washington, DC. United States: World Bank. Mimeographed document.
26. Leah, M. (2008). Interest rate forecasts, financial markets group, *London School of Economics and Political Science, 42*(3), 201-231.
27. Lintner, J. (1956). Distribution of incomes of corporations among dividends, retained earnings and taxes, *American Economic Review, 46*(2), 97– 113.
28. Maladjian, C. & El Khoury, R. (2014). Determinants of the dividend policy: An empirical study on the Lebanese listed banks. *International Journal of Economics & Finance, 4*(6), 240-252.
29. Maniagi, G. M., Denco, M. J., Ondiek, B. A., Okaka, D. & Musiega, D. (2013). Corporate governance, dividend policy and performance. Special reference to banks listed on Nairobi security exchange

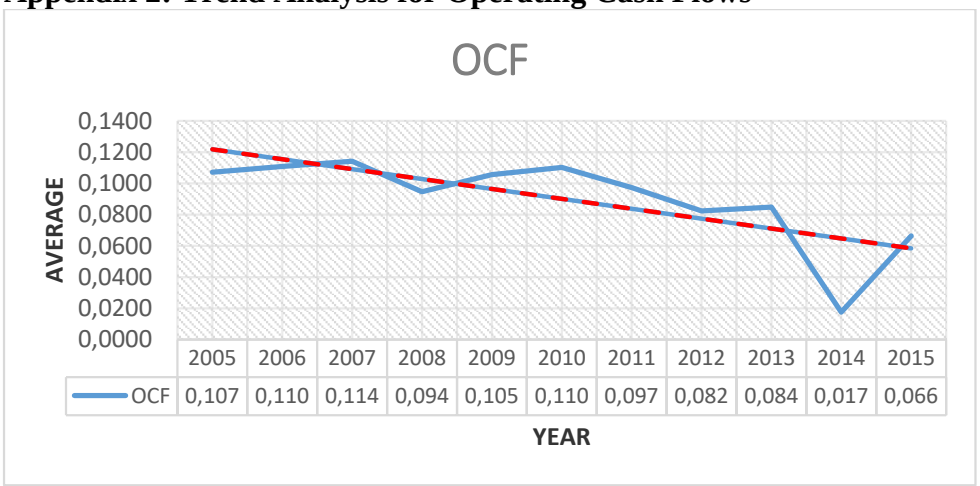
Kenya. *International Journal of Innovative Research & Development, 5*(2), 56-69.
30. Marsh, C. (2012). Financial Management for non-financial managers, Kogan Page.
31. Millet-Reyes, B. & Zhao, R. (2010). A comparison between one-tier and two-tier board structures in France. *Journal of International Financial Management and Accounting, 21*(3), 279–310.
32. Modigliani, F. & Miller, M. (1961). Dividend policy, growth and the valuation of shares. *The Journal of Business*, *34*(4), 411-428.
33. Murekefu, T. M. & Ouma, O. P. (2012). The relationship between dividend payout and firm performance: A study of listed companies in Kenya, *European Scientific Journal*, *8*(9), 199-215.
34. Myers, S. C. (1984). The capital structure puzzle. *The Journal of Finance. 39*(3), 574-592.
35. Nissim, D. & Ziv, A. (2001). Dividend changes and future profitability. *The Journal of Finance, 56*(6), 2111-2133.
36. Odawo, C. (2015). Determinants of dividend payout policy in public ltd banks in Kenya: A case study of CFC Stanbic bank. Strategic Journal of Business & Change Management, 2(2), 16-28.
37. Omran, M. & Pointon, J. (2004). Dividend policy, trading characteristics and share prices: Empirical evidence from Egyptian firms, *International Journal of Theoretical and Applied Finance*, *7*(2), 121–33.
38. Uwuigbe, O. R. (2013). An Examination of the effects of Ownership structure and financial leverage on the dividend policies of listed firms in Nigeria, *Journal of Economics, Business and Accountancy Ventura, 2*(16), 251 – 258.
39. Waggoner, D., Neely, A. & Kennerley, M. (1999). The forces that shape organizational performance measurement systems. An interdisciplinary review. *International Journal of Production Economics, 60*(61), 53–60.
40. Waweru, M. A. S. (2008). Competitive strategy implementation and its effect on performance in large private sector firms in Kenya, Unpublished PhD Thesis, University of Nairobi.

Appendices

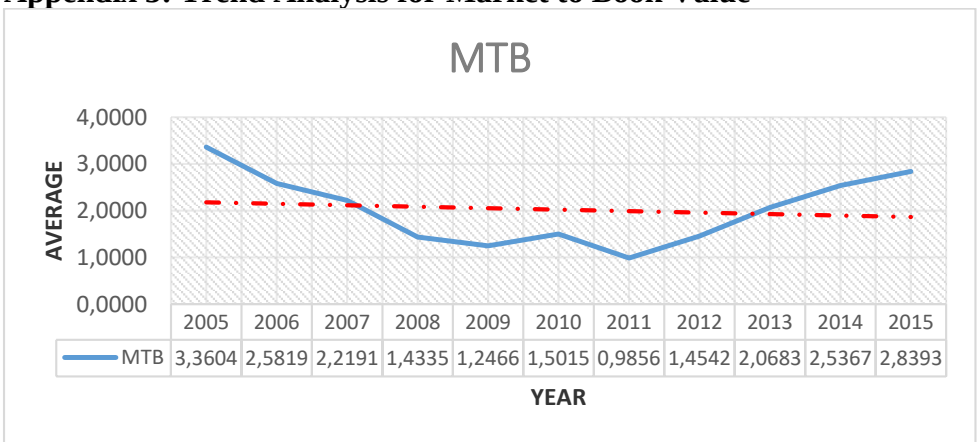
Appendix 1: Trend Analysis for study Return on Equity



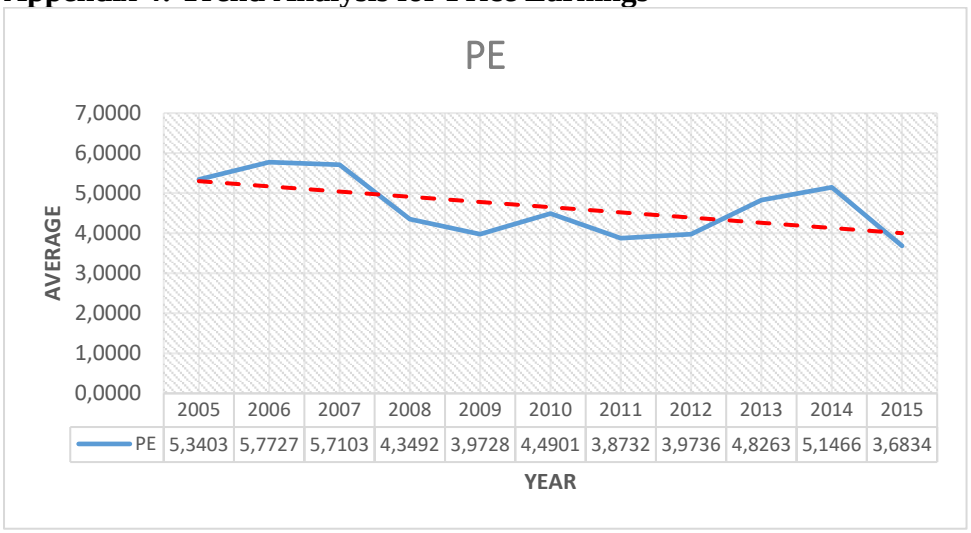
Appendix 2: Trend Analysis for Operating Cash Flows



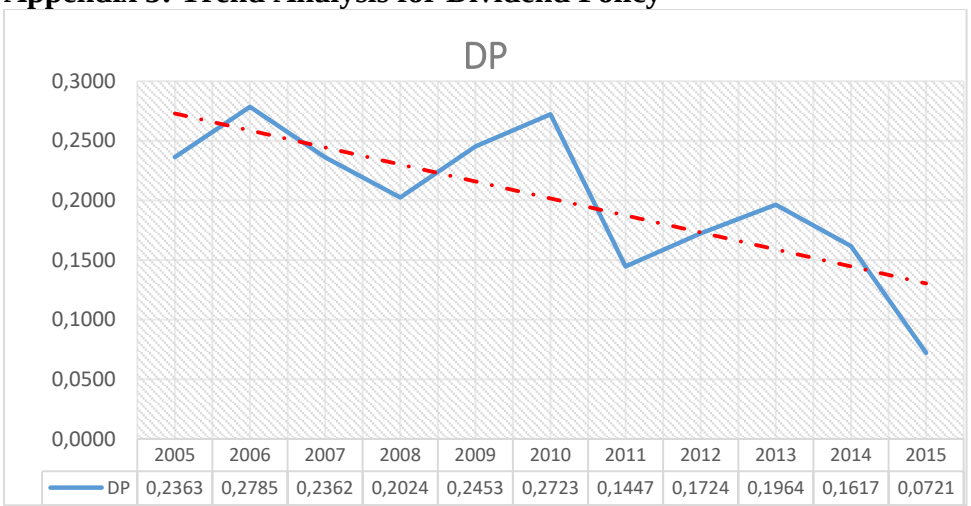
Appendix 3: Trend Analysis for Market to Book Value



Appendix 4: Trend Analysis for Price Earnings

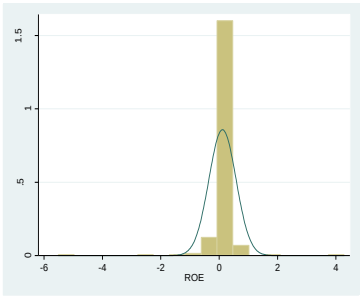


Appendix 5: Trend Analysis for Dividend Policy

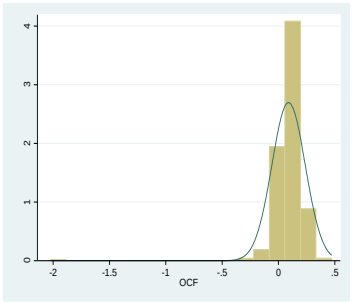


Appendix 6: Normality Test Summary for Individual Study Variables

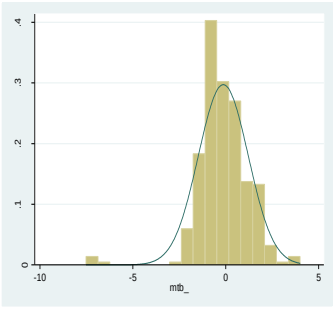
Return on Equity



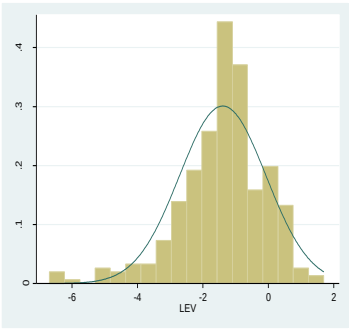
Operating Cash Flow



Market to Book Value



Price Earnings



Dividend Policy