ANALYSIS OF DETERMINANTS OF DIVIDEND PAYOUT BY AGRICULTURAL FIRMS LISTED ON THE NAIROBI SECURITY EXCHANGE.

BY

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D58/10081/2006

A Thesis Submitted in Partial Fulfillment of the requirements for the Award of Degree of Masters of Science Finance in the School of Business of Kenyatta University.

SEPTEMBER, 2013
DECLARATION

This thesis is my original work and has not been presented for a degree in any other university or any other award.

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LECTURERS’ APPROVAL

We confirm that the work reported in this thesis was carried out by the candidate under our supervision.

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CHAIRMAN’S APPROVAL

This thesis has been submitted with my approval as the Chairman, Accounting and Finance Department.

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Chairman, Accounting and Finance,

Kenyatta University
DEDICATION

To all the people in the world who struggle against seemingly insurmountable odds to succeed, when it seems impossible hold fast, keep your head down, work harder, because success is closer than you think.
I would like to thank my committee for believing in and supporting me. Your investment in my future will never be forgotten. Dr. Gachanja, your support is truly limitless, thank you for helping me and teaching me lessons that will serve me for the rest of my life. Dr. Wawire, thank you for being an incredible role model, and your invaluable contribution to my growth. Dr. Atheru and Dr. Mwathe, thank you, for wonderful guidance and your terrific support. Mr. Ndede and Mr. Muturi, thank you, for helping me through this process and providing mentorship. Mr. Simiyu, thank you, for taking the time and ensuring that I have the tools to succeed in the future. Dr. Jagongo and Dr. Nzuki thank you for providing feedback, and helping me to get to the finishing line of this thesis.

Finally, I can never thank enough my family for the continuing support always received. To my brothers, and in particular, to my mother for baby-sitting for me so many times. Lastly, and most specially, thanks to my wife and children. I could not have accomplished this thesis without my children’s happiness and my wife’s love and encouragement; you are the best in the world.
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OPERATIONAL DEFINITION OF TERMS

Dividend: The term dividend is a distribution of a portion of a company's earnings, decided by the board of directors, to a class of its shareholders. The dividend is most often quoted in terms of the amount each share receives (dividends per share).

Liquidity: The degree to which an asset or security can be bought or sold in the market without affecting the asset's price. Liquidity is characterized by a high level of trading activity. Assets that can be easily bought or sold are known as liquid assets.

Market-to-Book: The market-to-book ratio is computed as the market value of assets divided by the book value of assets. Market value of assets is defined as the book value of assets less the book value of equity plus the market value of equity.

Net Assets: Referred to as net worth, is the shareholders' equity = assets minus liabilities. Net assets mean the owners' equity or in other words shareholders' equity in a company Balance sheet. The logic behind to use the term "Net assets" instead of "Shareholders' equity" is that, by definition of Financial Accounting Standards Board (FASB) net assets is what residual value left for company owners after deduction all liabilities from all assets.

Pay-out Ratio: The amount of earnings paid out in dividends to shareholders
**Population:** A research population is generally a large collection of individuals or objects that is the main focus of a scientific query. It is for the benefit of the population that researches are done.
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<tr>
<td>CMA</td>
<td>Capital Market Authority</td>
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<td>EPS</td>
<td>Earnings Per Share</td>
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<td>GRWTH</td>
<td>Growth rate</td>
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<td>LLSV</td>
<td>Lunar Logistics System Vehicle</td>
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<td>LSDV</td>
<td>Least Squares dummy variables</td>
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<td>MTBV</td>
<td>The market-to-book value</td>
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<td>NPV</td>
<td>Net Present Value</td>
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<tr>
<td>NSE</td>
<td>Nairobi Securities Exchange</td>
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<td>NYSE</td>
<td>New York Securities Exchange</td>
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<td>OLS</td>
<td>Ordinary Least Square</td>
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<td>SPSS</td>
<td>Statistical Package for Social Scientists</td>
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ABSTRACT

Agriculture has been a major source of the country’s food security and a stimulant to off-farm employment but agricultural production is on decline. Most firms in the agricultural sector have not lived to their expectations and have led to shareholder apathy thereby contributing to the decline of the rural economy due essentially to unstable and low dividend payout. The dividend policy is one of the most debated topics in finance literature. One of the different lines of research on this issue based on the information content of dividends, which has motivated a significant amount of theoretical and empirical research. An interesting issue, not yet explored, is the empirical evidence of determinants of dividend payout. Profitability has always been considered as a primary indicator of dividend payout ratio. There are numerous other factors other than profitability that also affect dividend decisions of an organization namely growth opportunity, Liquidity, Leverage and Firm Size. Available literature suggests that dividend payout is positively related to profits, liquidity and it has inverse relationship with Firm size, growth and Leverage. This research is an attempt to analyze the determinants of dividend payout of Kenya Agricultural sector. This thesis also focused on identifying whether various factors available as per literature influence dividend payout ratio in Agricultural sector in Kenya in existing scenario or not. Statistical techniques of correlation and regression were used to explore the relationship between key variables. Thus, the main theme of the study was to identify the various factors that influence the dividend payout policy decisions of Agricultural firms in Kenya listed on Nairobi Securities exchange. Most of the existing literature is mostly from the studies carried out in developed nations, hence the need for a study on the Kenyan domestic market. The study covered the period from 2005-2010. The research design was non-experiment and quantitative. The objective of the study was achieved by adopting panel data estimation technique using multiple regressions because it is the best method to use when dealing with micro-units in the economy. The test between Ordinary Least Square (OLS), fixed effects and random effect model was carried out. Panel data, cross-sectional time series data from financial reports in NSE libraries and CMA libraries was collected and stored in Microsoft Excel 2007, data analysis was carried out using the Statistical Package for Social Scientists (SPSS) version 17.0. The results show positive relationships between dividend payout and liquidity and profitability. The results also show negative associations between dividend payout and firm’s growth, Firm size and leverage. These results are consistent with the prediction by many authors.
CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of study

Does Dividend Policy matter? Almost each Academic will say without any doubt “Yes” and of course will cite many classic and contemporary examples of how dividend policy plays out in the marketplace. Dividend policy cuts to the quick of such interesting and old questions like “Why do corporations pay out dividends?” and also “why should investor care?” Dividend Policy is must-have recourse”.

John (2013) understanding dividend payout ratio is important, because it can provide clues as to the sustainability of a company’s dividend and the potential for it to grow. Typically, the payout ratio refers to the percentage of a company’s earnings that are paid out as dividends. However, the ratio is also sometimes expressed as a percentage of cash flow, which excludes non-cash items such as depreciation. Young, fast-growing companies tend to pay out little or nothing in the way of dividends, because they need to reinvest cash in the business. Cyclical companies with volatile earnings – materials producers, for example – also tend to have very low payout ratios, because they can’t sustain a high dividend in bad times. At the other end of the scale are mature companies whose predictable earnings and strong cash flows allow them to pay out a higher percentage of their profits. As an investor, I like to see a target payout ratio, because it’s a sign of financial discipline.

John (2013) in extreme cases, a payout ratio can exceed 100 per cent. How is this possible? Well, a company can dip into its cash resources or borrow to sustain the
dividend even when its profits take a hit. Also, if a company has a dividend reinvestment plan, it can pay out more than it earns because many investors choose to take their dividends in shares instead of cash. But a company can’t pay out more than 100 per cent forever. Eventually, it will either have to cut its dividend, or increase its profits. In such situations, the company should have a plan for addressing the shortfall. There are no simple rules of thumb with payout ratios. But if you stick with strong companies that have manageable payout ratios – and which also have growing revenues and earnings – you’re more likely to be rewarded with dividend increases and less likely to suffer a dividend cut.

Dividend payout has been a subject of debate among finance managers. Academicians and researchers have developed many theoretical models describing the factors that managers should consider when making dividend payout decisions. Miller, Merton and Modigliani (1991), argue that given perfect capital markets, dividend decision does not affect the firm value and is, therefore, irrelevant. Most financial practitioners and many academics greeted this conclusion with surprise because the conventional wisdom at the time suggested that a properly managed dividend payout had an impact on share prices and shareholders’ wealth.

Company’s income can be invested in operating assets, used to acquire securities, used to retire debts, and/or distributed to shareholders in the form of cash dividends. Issues that arise if a company decides to distribute its income to shareholders include the proportion of the after tax income that would be distributed to shareholders; and how stable the
distribution should be. The well-known classical paper Black and Fischer (1976), argue that “the harder we look at the dividends picture, the more it seems like a puzzle, with pieces that just do not fit together”. Thus setting corporate dividend policy remains controversial and involves judgment by decision makers. In addition, there has been emerging consensus that there is no single explanation of dividend payment.

Dividend decision is the third major financial decision (Pandey, 2008). The financial manager must decide whether the firm should distribute all profits, or retain them, or distribute a portion and retain the balance. The dividend payout should be determined in terms of its impact on the shareholders’ value. The optimum dividend policy is one that maximizes the market value of the firm’s shares. Thus, if shareholders are not indifferent to the firm’s dividend payout, the financial manager must determine the optimum dividend payout policy. Most profitable companies pay cash dividends regularly. On the other hand dividends may be considered desirable from shareholders’ point of view as they tend to increase their current return. Dividends, however, constitute the use of the firm’s funds.

Cash dividend is the commonest of dividends paid (Pandey, 2008). It is a return to the shareholders. Companies intending to pay such dividends will be required to reserve sufficient cash in their bank accounts to facilitate this payment. It is useful for a company to prepare cash budgets to indicate which period would be best for payment of cash dividends without endangering the company’s liquidity position and if this is at stake, the company should make arrangements to borrow funds to fill the gap left by the payment of
cash dividends. In all, the payment of cash dividends has the impact of reducing the company’s cash balance and thus total assets and the company’s net worth in general.

Pandey (2008) states that a securities dividend by definition is the distribution of shares in addition to or in lieu of cash dividends which the company pays to its shareholders. These shares must be within the company’s authorized share capital because this securities dividend will increase the existing number of ordinary shares. It is usually given in proportion to the company’s existing shareholding. This securities dividend represents a capitalization of reserves which will change from their temporary form to a permanent form of ordinary securities.

Linter’s (1996) classic work finds that growth prospects of the industry and the firm, earnings of the firm and cyclical variation of investment opportunities are important factors affecting firm’s dividend policies. Although variation in dividend payouts among firms appear to be affected by firm specific variables such as investment requirements and earnings variability, Linter’s (1996) hypothesizes that dividend policy also is influenced by an industry effect. This effect could be interpreted as common correlations with determinants of dividend payout by firms in the same industry.

The modern theory of dividend policy began with Miller and Modigliani (1990) who argues that dividend policy is irrelevant, holding constant the firm’s investment policy. Since then several hypotheses have been advanced to explain dividend policy. This study aimed at analysing the determinants of dividend payout of agricultural firms that were
listed on the Nairobi Securities Exchange during the period of 2005 to 2010. The term dividend usually refers to a cash distribution of earnings. Dividends are distributed to shareholders when all investment projects with Positive Net Present Values have been financed (Dayha et al., 2003).

The issue of dividend payout is important for several reasons. First, researchers have found that a firm uses dividends as a mechanism for financial signalling to the outsiders regarding the stability and growth prospects of the firm. Secondly, dividends play an important role in a firm’s capital structure.

A firm’s securities price is affected, among other things, by the dividend pattern. Firms usually do not like to reduce or eliminate dividend payments (Woolridge and Gosh, 1988 and 1991), hence they make announcements of dividend initiation or increases only when they are confident of keeping up with their good performance. Moreover, because the success of a financial manager is tied to the maximization of shareholder wealth, hence he must understand the dynamics of dividend payout.

Grounded in the agency theory, dividends are influenced by the severity of agency costs and agency costs in turn, are related to the strength of shareholder rights (Gompers, Ishii and Metrick, 2003). Therefore, there should be a relationship between dividend payouts and the strength of shareholder rights.
Jensen (1996) two competing hypotheses are discussed. First, the Managerial Opportunism hypothesis argues that opportunistic managers are likely to retain cash within the firm instead of distributing it to shareholders. The excess cash may be spent to the private benefits of the managers. Firms with weak shareholder rights are more vulnerable to managerial opportunism and hence, payout less in dividends. This hypothesis predicts a positive link between dividends and shareholder rights – the weaker the shareholder rights, the lower the dividend payouts.

The substitution hypothesis contends that firms need to raise capital in the external capital markets at least occasionally. The ability to raise capital on favourable terms hinges on the reputation of the firm for not exploiting shareholders. One way to build such a reputation is by paying dividends. This reputation for treating shareholders favourably is most valuable for firms with weak shareholder rights. Thus these firms tend to pay dividends more generously to establish such a reputation. In other words dividends substitute for shareholder rights. The empirical prediction of this hypothesis is that dividend payouts are inversely related to the strength of shareholder rights; the weaker the shareholder rights, the higher the dividend payouts.

Information asymmetry between an ‘insider’ and ‘outsider’ may also lead to agency cost (Jensen and Meckling 1996). One of the mechanisms suggested for reducing ‘outsiders’ expropriation is to reduce free cash flows available to managers through high payout. The cash flow hypothesis asserts that insiders have more information about firms’ future cash flow than do outsiders, and they have incentive to signal that information to outsiders.
Dividends can be an ideal device for limiting rent extraction of minority shareholders. Large shareholders, by granting dividends, may signal their willingness to exploit them. Dividend payout, however, guarantees equal payout for both insider and outsider equity holders.

The taxation theory postulates that investors do not prefer cash dividends because of the tax disadvantages associated with them although there are benefits that offer the tax disadvantage. In Kenya the withholding tax are as follows: 5% and 10% for residents and non-residents respectively. Thus, according to the taxation theory investors will prefer capital gains to dividends because of the tax disadvantage associated with dividends. When capital gain tax is higher than the dividend tax, investors will prefer dividends to capital gains.

Dividends are also paid because of the clientele effect. Low income shareholders will prefer high dividends to meet their consumption needs while high income shareholders will prefer less dividends so as to avoid the payment of taxes. Therefore, when a firm sets a certain dividend policy, there will be shifting of investors to it and out of it until an equilibrium position is reached.

There are empirical studies that investigated the relationship between dividend and investment policy (Allen and Michaely, 1995). They have concluded that firms could pay dividends provided they did not have any positive net present value projects to undertake. This is termed the residual dividend theory, which states that a firm pays dividends after
meeting its investment needs while maintaining a desired debt-equity ratio (Ross et al, 2000).

In summary, there are many reasons as to why companies should pay or not pay dividends. For example, the dividend payout is important for investors because

i) Dividends provide certainty about the company’s financial well-being,

ii) Dividends are attractive for investors looking to secure current income, and

iii) Dividends help maintain market price of the share. Companies that have a long-standing history of stable dividend payouts would be negatively affected by lowering or omitting dividend distributions. These companies would be positively affected by increasing dividend payaouts or making additional payouts of the same dividends. Furthermore, companies without a dividend history are generally viewed favourably when they declare new dividends.

1.2 Statement of the problem

In the 2004, Kenya adopted strategy for Revitalizing of Agriculture the path to national development and planning in the promotion of the overall development in the country. It is in the rural areas where a large proportion of people lives and depends to a large extent on agriculture. Most of them are poor and live below a dollar a day.

Augustin et al., (2003), despite the importance of agriculture to economic development, support for agriculture through either donor aid or the domestic resources has fallen in absolute and relative terms. The result has been a slower growth in staples and traditional exports and an increase in poverty. According to the International Fund for Agricultural
Development (IFAD) Rural poverty report 2001, real net aid disbursement to all developing countries has fallen from 2.7 percent to 1.4 percent of GDP between 1992 and 1998. Over the same period, the proportion allocated to agriculture, has declined from 20.2 to 12.5 percent.

The reduction of funding to agriculture is regressive to efforts geared towards poverty and hunger reduction. Neglect of agriculture in terms of both international development cooperation and domestic resource allocation must be addressed if the challenging targets of poverty reduction, inequality and food security is to be achieved.

Alemayehu et al., (2005) Indeed, overwhelming evidence from experience of developing countries show that rural development has important invigorating effects on overall economic development. In Kenya, empirical evidence shows that a 1 percent increase in agricultural GDP results in a 1.6 percent increase in national GDP. Thus, improving the quality of life in rural areas necessarily spills over to the urban centers. To support this view, recent studies have shown that in many developing countries, the largest growth in poverty reduction has occurred as a result of agricultural sector growth. The implication is that agricultural growth is generally poor and that improving farm production helps spur non-farm activities in the rural areas. Such non-farm activities are now seen as crucial to insulating rural families from poverty. In-deed the Poverty Reduction Strategy Paper (PRSP) discussions by stakeholders placed agriculture and rural development at the top of national priorities for action (Republic of Kenya, 2001). This position was influenced by the high priority accorded to agriculture and most firms in the agricultural sector have not lived to their expectations and have led to shareholder apathy thereby
contributing to the decline of the rural economy due essentially to unstable and low dividend payout.

1.3 **Objectives of the study**

The general objective of the study was to analyze the determinants of dividend payout for agricultural firms listed on Nairobi Securities Exchange. This study was guided by the following specific objectives:

1. To assess effects of firms’ size on dividend payout.
2. To assess effects of liquidity on dividend payout.
3. To determine the effects of firms’ growth opportunities on dividend payout.
4. Examine the effects of firms’ profitability on dividend payout.
5. To determine the effects of leverage on dividend payout.

1.4 **Hypotheses tested:**

1. There is positive relationship between firm size and dividend payout.
2. There is positive relationship between liquidity and dividend payout.
3. Firm’s growth opportunity is negatively related to dividend payout.
4. Firm’s profitability is positively related to dividend payout.
5. Firm’s leverage is negatively related to dividend payout.

1.5 **Significance of the study**

Colin *et al.*, (2001) Agriculture has been a major source of the country’s food security and a stimulant to off-farm employment. Thus, industrial development is unlikely to be
sustainable unless there is sufficient domestic demand, which essentially calls for raising incomes of the rural people. Furthermore, the highest potential for industrialization also lies in the area of agricultural based industries. Even though it is true that industrialization can play a key role in poverty reduction, it is important to keep in mind that industrialization will necessarily have to be supported by agriculture. The importance of agricultural growth to alleviate poverty and stimulate economic growth and development in Kenya cannot be over emphasized. Available evidence reveals that sustainable poverty reduction can only be possible through economic growth and development strategies. There are those who suggest that due to low rates of return in investing in agriculture, effective poverty reduction could be attained directly through the process that support the trickle down mechanism of growth. The concept here is to invest outside agriculture in urban areas and industrial sector. The benefits will eventually filter down to rural areas thereby reaching most of the poor. This will have to be done through agriculture because it is the backbone of economic growth, employment creation and generation of foreign exchange. The study will be value to academicians to understand factors that determine dividend payout.

The theoretical explanations on the determinants of dividend payout are intuitively appealing to the researcher. Baseline data gathered from the result of this study shall serve as guide to other researchers in their quest for additional knowledge.

1.6. Scope of the study.

The study focused on the determinants of dividend payout of agricultural firms listed on NSE. The Agricultural Segment is made up of seven companies Kakuzi- specialized in
Tea and Horticultural crops, Rea Vipingo plantations-Sisal, Sasini- tea and coffee, Kapchorua Tea, Limuru Tea, Willliamson Tea and Eaagads. Relevant dividend payout theories ranging from traditional theories to relevancy school was highlighted and discussed in detail.

1.7 Limitations of the Study

In the field of study, difficulties are inevitable. The following were expected limitations of the study:-

The study only focused on seven agricultural companies and as such the generalization of the findings of the study may be subjected to certain cautions. Several other factors influence the dividend payout of non-agricultural firms was excluded but we concentrated on the major factors. This was due to the focus of the study.

There was little documented information on the previous studies done in this area. Most researchers have not developed recent data on this area, thus making it difficult for the researcher to base his study findings using available literature support. However, this was overcome by generating primary data.

There was large amount of data which could have led to missing important information or overweighing some findings due to focusing on large set of data. To address this shortcoming, significant amount of time and effort was spent on carefully assembling of data.
Information unknown to the respondents was not tapped in the survey. Therefore, secondary data was generated to provide adequate back up information. The acquisition of confidential information was a challenge to the researcher. The respondents were assured that the given information was confined to serve the research purpose.
CHAPTER TWO

LITERATURE REVIEW

2.0. Introduction to literature review.

Before starting the discussion, let’s us review the origin and evolution of corporate dividends provided an example from history. The authors noted that in early sixteenth century captains of sailing ships in Great Britain and Holland began selling to investors claims to financial payoffs of the voyages. At the conclusion of voyages, proceeds from the sale of the cargo and shipping assets, if any were divided among the participants proportionately to ownership in the enterprise. These distributions were in fact nothing more like payments that effectively liquidated the venture, or liquidating dividends. By the end of the century, these claims on voyage outcomes began trading in open market. These claims to outcomes were replaced by share ownership.

Gugler (2003) even before the modern capital theory developed alongside with the statistical measurement of the impact of diversification on portfolio risk, investors in these sailing ventures regularly purchased shares from more than one captain to diversify the risk in these endeavours. Also, like in the modern corporation, investors provide capital for the ventures, while the captains offer their skills-for instance, seafaring and managerial skills.

Frank et al., (1998) concluded their survey with a next observation: “Our conclusion, based on study, is that dividend-payment patterns ( or what is often referred to as dividend policy”) of firms are a cultural phenomenon, influenced by customs, beliefs,
regulations, public opinion, perceptions and hysteria, general economic conditions and several other factors, all in perpetual change, impacting different firms differently. According, it cannot be modeled mathematically and uniformly for all firms at all times.

This section of the report contains the literature of the previous studies conducted in the problem area and the review of major issues in the literature. Several sources of literature have been reviewed primarily to gain insight into the issue related to determinants of the firm’s dividend payout by agricultural firms. As suggested by Al-malkawi and Husam-Aldin Nizar (2008), a firm’s dividend policy can be influenced by taxes, asymmetric information, incomplete contracts, institutional constrains and transactional costs.

2.1. Theoretical Literature Review.

The researcher went over number of literature and studies relevant to the present study in different public and private libraries. The literature studies which have bearing to the present day study are herein cited.

2.1.1 Dividend relevance: Walter’s model.

Walter and James (1993) argued that the choice of dividend policies almost always affected the value of the firm. His model, one of the earlier theoretical works, clearly showed the importance of the relationship between the firm’s rate of return and its cost of capital. Walter’s model is based on the following assumptions: internal financing, constant return and cost of capital and 100 per cent payout or retention. Walter’s model is quite useful to show the effects of dividend policy on all equity firms under different
assumptions about the rate of return. However, the simplified nature of the model can lead to conclusions which are not true for the model.

2.1.2 The agency cost theory.

Agency conflicts are derived from the divergence of ownership and control. Thus, firms where shareholders’ rights are severely restricted are likely to suffer higher agency costs because managers are better able to exploit the weak shareholder rights and place their own private benefits ahead of shareholders’ interests. The importance of monitoring is recognized by Allen et al., (2000) who noted that institutional investors prefer to own shares of firms making regular payments, and this type of investors is more prone to frequent monitoring than small shareholders.

Payouts can be used to self-impose discipline. Jensen (1996) suggested that equity holders can minimize the cash that management controls, and thereby reduce the opportunity for management to go on spending sprees or invest in negative NPV projects. One way to remove unnecessary cash from the firm is to increase payout. Jain and Kini (1999) argued that dividend transfer wealth from the debt holder to the shareholder. This reduces the claimant of the debt holders in the case that the firm has difficulties in meeting its financial obligations. Debt holders will have debt covenants with the firm in order to limit payment of dividends by firms. Thus they protect themselves from expropriation of wealth by shareholders and ensure that the value of the firm is not reduced by the actions of shareholders.
According to Jensen and Meckling (1996), firms can reduce agency problems by issuing more debt and paying a higher ratio, reducing the cash flow. The authors argued that if the company earnings are not distributed as dividends to the shareholders, managers can use them for unprofitable projects or for perquisite consumption that does not maximize the shareholders’ wealth. These dividends are paid to control agency problems by getting away with excess cash and assuring the shareholders that the company is being managed in their interest.

Dividend payouts have been argued to mitigate agency conflicts by reducing the amount of free cash flow available to managers, who do not necessarily act in the best interest of the shareholders (Farinha and Jorge 2003). Grounded in the agency theory, dividend payouts are influenced by the severity of agency costs and agency costs in turn, are related to the strength of shareholders’ rights (Gompers et al., 2003). Therefore, there should be a relationship between dividend payouts and the strength of shareholder rights.

Dividend payouts have been argued to mitigate agency costs in at least two ways. First, predicted on by Raheja (2005), on the separation of ownership and control. A firm with substantial free cash flow is inclined to over invest by adopting marginal investment projects with negative net present values (Jensen, 1996). If managers are over-investing, an increase in dividend will, all else being equal, reduce the amount of free cash flows, thereby mitigating the overinvestment problem. Hence, dividend payouts helps control agency problems by getting rid of excess cash that would result in unprofitable projects.
Dividends function as a mechanism for controlling agency costs by exposing the firm to the primary capital market monitoring (Decamps 2006). Higher dividends increase the likelihood that the firm will have to issue new common securities in the capital markets more often. This in turn, leads to an investigation of management by investment banks, security exchanges and capital suppliers. The importance of monitoring by investment banks has been recognized through studies.

2.1.3 Incomplete contracts.

The agency problem of incomplete contracts views the dividend policy as the consequence of the separation of ownership and control. The management of a widely held firm could allocate resources to projects that benefit themselves which are not in the best interest of the shareholders. To prevent sub-optimal expenditures, shareholders can minimize the cash under the management’s control by demanding substantial dividend payment from the firm (Jensen, 1996). Fluck (1999) and Myers (2000) suggest that the management voluntarily commit to pay cash under the threat of disciplinary actions.

The extent to which the management is capable of value destroying is associated with ownership structure of the firm. Reheja (2005), raise the argument that large shareholders can play the role of monitoring the management, which enhances the value of the firm. Allen et al., (2002), emphasize the firm’s preference for the large institutional shareholders that the firms choose dividend payout levels which fit these shareholders’ tax brackets. These models seem to suggest that the high dividend payout level and the presence of large shareholders are substitute corporate governance mechanisms.
An alternative explanation of the role of large ownership is offered by Gugler (2003), who argue that conflicts between the management and shareholders are less severe than those between large and small shareholders. When the largest holding increases, the interests of the large and small are more aligned, which makes the small shareholders less motivated to request cash paid out as dividends.

The management’s exploitation of their control over the firm also depends on the growth prospects of the firm. The problem of overinvestment or even theft tends to occur in stable cash-rich firms in mature industries with few investment opportunities. On the contrary, small growth firms under tight budget constraints are not likely candidates of these agency problems.

### 2.1.4 Information content of dividends.

There may be information content to dividends. The dividends may be a signal to the public of the management’s anticipations for future policy of the firm and prospects. If there is good information, the managers may signal this information to the public by raising dividends. There is reluctance to lower dividends because managers want the dividends to represent expectations of the future value of the firm. The dividend is a more credible means of conveying information because it is costly to the firm. The more costly the signal the more believable it is (Jensen and Meckling, 1996).

Information asymmetry between an ‘insider’ and ‘outsider’ may also lead to agency cost (Jensen and Meckling, 1996). One of the mechanisms suggested for reducing ‘outsiders’
expropriation is to reduce free cash flows available to managers through high payout. The cash flow hypothesis asserts that insiders have more information about the firm’s future cash flow than do the outsiders, and they have incentive to signal that information to outsiders.

Raheja (2005) Dividends can be an ideal device for limiting rent extraction of minority shareholders. Large shareholders, by granting dividends, may signal their unwillingness to exploit them. Dividend payouts, however, guarantee equal payout for both insider and outsider equity holders. He believed because of information asymmetry, dividends are also paid as signal to shareholders, that managers are managing the firm in their interest. Managements have superior knowledge about the earning prospects of a firm; hence, they pay dividends to convey information about the future profits of the firm to potential investors.

If insiders have superior information about the firm’s future cash flows, many researchers argue that dividends can convey information about the firm’s prospects. One possibility is that dividends may simply convey information not previously known to the market through the sources and uses of identity, as in Miller and Rock (1990), even if managers are not explicitly signaling private information. Conveyance of information, either through earnings announcements or direct communication with the investor community is thought to transmit the majority of information to outsiders. It is helpful for payout to be consistent with these other forms of communication.
The proponents of the signaling theory also argue that dividends are used to convey information about the future prospects of the company cheaply than other alternative ways of conveying the information to outsiders (Fuller and Anjani, 2002). Firms can signal their future profitability by paying dividends so that an increase in dividends will be seen as a signal to investors that the company is doing well.

Miller et al., (1995) for instance, developed a model in which dividend announcement effects emerge from the asymmetry of information between the owners and managers. The dividend announcement provides shareholders and the market place, the missing piece of information about current earnings upon which their estimations of the firm’s future earnings is based. Beiner and Stefan (2001), construct an alternative signaling model in which the source of the dividend information is liquidity driven. They were among the first to explicitly recognize the role of insiders as one of monitoring the managers. He finds that dividend policy for unregulated firms is negatively related to the level of insider holdings. One interpretation of this result is that firms with higher levels of insider holdings have less need to signal firm value through dividends than comparable firms with lower levels of insider holdings. Additionally, in the context of the investment and financing decision showed that the level of insider holdings is itself a signal of firm value.

Miller and Scholes (1984) argued that the signaling theory suggests that firms need to take actions that cannot be easily limited by firms without good projects. Increasing dividends is viewed as one such action. By increasing dividends, firms create a cost to
themselves since they commit to paying these dividends in the long term. Their willingness to make this commitment indicates that they believe they have the capacity to generate these cash flows in the long term. This positive signal should therefore lead investors to re-evaluate the cash flows and firm values and increase the securities price. Decreasing dividends is a negative signal, largely because firms are reluctant to cut dividends. Thus, when a firm takes this action, markets see it as an indication that this firm is in substantial and long term financial trouble. Consequently, such actions lead to a drop in securities prices.

2.1.5 The irrelevance theory

According to Gordon’s model (Gordon et al., 2006), dividend policy is irrelevant where firm’s rate of return equal firm’s cost of capital, when all other assumptions are held valid (Pandey, 2008). But when the simplifying assumptions are modified to conform more closely to reality, Gordon concludes that under conditions of uncertainty, investors tend to discount distant dividends. Investors, behaving rationally, are risk-averse and, therefore, have a preference for near dividends to future dividends.

Miller and Modigliani (1991) viewed dividend payment as irrelevant according to them, the investor is indifferent between dividend payment and capital gains. The author’s theory is based on the assumptions that, a firm’s investment policy is fixed and that there are no taxes. It is also assumed that there is no information asymmetry between outsiders and insiders. This means that investors and managers have identical information with regards to the company’s future earnings and dividends. Miller and Modigliani (1991)
argued that when there are no markets imperfection dividends are irrelevant to the value of the firm. Thus the market value of the firm is not affected whether a company pays dividends or not.

Baker et al., (2002) revisited dividend puzzle and concluded that various theories evolved to explain the dividend puzzle. They focused on three common explanations involving major market imperfections or frictions: taxation, asymmetric information (signaling), and agency costs. They also discuss other minor market imperfections identified in the literature as potentially making the dividend decision relevant: transaction costs, flotation costs, and irrational investor behavior. Although researchers typically focus on each market imperfection in isolation, complex interactions may exist among these frictions. If the imperfections are insignificant or offsetting, the M&M conclusion about dividend irrelevance may hold. Otherwise, these market imperfections may be relevant to the dividend setting process and to the value of the firm.

2.1.6 The bird – in – the – hand fallacy.

One reason given for the view that investors prefer dividends to capital gains is that dividends are certain whereas capital gains are uncertain, Bratton and William (2005). Proponents of this view of dividend policy felt that risk averse investors will therefore prefer the former. This argument is flawed. The simplest counter-response is to point out that the choice is not between certain dividends today and uncertain capital gains at some unspecified point in the future, but between dividends today and an almost equivalent amount in price appreciation a day. Another response to this argument is that a firm’s
value is determined by the cash flows from its projects. If the firm increases its dividends but its investment policy remains unchanged, it will have replaced the dividends with new securities issues.

2.1.7 The clientele effects

Mori (2009) observed that securities holders prefer cash dividends. Given the vast diversity of securities holders, it is not surprising that, over time, securities holders tend to invest in the firms whose dividend policies match their preferences. Securities holders in high tax brackets who do not need the cash flow from dividend payments tend to invest in companies that pay low or no dividends. By contrast, securities holders in low tax brackets who need the cash from dividend payments, and tax-exempt institutions that need current cash flows, will usually invest in companies with high dividends. This clustering of securities holders in companies with dividend policies that match their preferences is called the clientele effect.

The existence of a clientele effect has some important implications. First, it suggests that firms get the investors they deserve since the dividend policy of a firm attracts the investors who like it. Second, it means that firms will have a difficult time changing an established dividend policy even if it makes complete sense to do so. The clientele effect also provides an alternative argument for the irrelevance of dividend policy, at least when it comes to valuation.
2.1.8 The regret theory

Pan (2001) stated that the sale of shares of securities causes more investor regret and anxiety than the spending of the cash received from dividend payments. A subsequent price rise of shares sold for income needs increases the shareholders' contrition. Clearly, in this model, capital gains and dividends are not perfect substitutes. Regret aversion can induce a preference for dividends through the use of a consumption rule based on the utilization of dividends, not invested capital. Dividend yields are positively correlated with the planned dissaving rate. If dissaving is positively related to age and negatively related to income, portfolio dividend yields will be positively correlated with age and negatively correlated with income.

Arnott et al., (2001) developed a rational expectations model of dividend policy as management's response to permanent earnings. In equilibrium, dividend levels are determined using future earnings expectations. Using dividends as signals is incompatible with this model.

The regret theory suggests that when an individual chooses an action from a number of uncertain alternatives, his decision is influenced by the potential post-decision regret (pride) he feel done his inability (ability) to select the option with the best outcome. Based on this premise, we argue that the decision to pay dividends and simultaneously raise venture capital from external source is attributable to managerial aversion for regret at the failure of risky investment opportunity implemented with internal funds generated by a conservative dividend policy and the decision to support dividends with borrowed funds when earnings are declining is motivated by the prospects that an improvement in
the firm’s financial condition will make the managers proud that their judgment has helped avert a potential crisis for the firm without loss to its shareholders.

2.2 Empirical Literature Review

Empirical studies have investigated the major determinants of divided payout by employing panel data methodology. Baker and Powell (2000) the empirical evidence results show that the dividend payout ratio is dictated to a large extent by various explanatory variables. We observe several interesting patterns when we look at the dividend policies of firms in the last 50 years. First, dividends tend to lag behind earnings; that is, increases in earnings are followed by increases in dividends, and decreases in earnings sometimes by dividend cuts. Second, dividends are “sticky” because firms are typically reluctant to change dividends; in particular firms avoid cutting dividends even when earnings drop. Third, dividends tend to follow a much smoother path than do earnings. Finally there are distinct differences in dividend payout over the life cycle of a firm resulting from changes in growth rates, cash flows, liquidity, firm size, profitability and leverage. The empirical studies in this section are grouped according to determinants.

2.2.1 Empirical studies: size as determinant of dividend payout.

Previous studies have found that firm size play a significant role in determining the dividend payout of firms. For example Holder et al., (1998) and Bradley et al.,(1998) found that larger firms tend to have higher payout ratios compared to small firms, large firms have easier access to the capital markets and are therefore, less dependent on
internal funds. A positive relationship between firm size and dividend payout ratio was hypothesized.

Mori (2009), found statistically significant differences in dividend payout ratios among 13 different industries during the late 1960s to the mid-1970s. Michel tests only firm size in regard to firm specific variables that may affect dividend payouts and finds no significant effect. He suggests however, that investment opportunities within industries may account partially industry effect. Baker and Powell (2000) updates the Michel study using data from 1977 to 1981. He identified effects to industry on dividend payout ratios unlike Michel no control of other variables. Al-Kunari (2010) to pay or not to pay dividend, used panel data and identity firm size as a factor influencing corporate dividend payout.

2.2.2 Empirical studies: liquidity as determinant of dividend payout.

Allen and Michaely (2002) said, many firms felt that their securities price would fall if they had a less diverse base. A related view is that the securities price will decrease if the overall liquidity of the securities were to fall. One half of firms feel that the liquidity of their securities is an important factor affecting the repurchase decisions. Therefore, a company will restrict repurchase if it feels that doing so will reduce liquidity below some critical level. This is consistent with findings in Bens et al., (2002).

Grullon and Michaely (2002), observed that in 1998, U.S firms distributed more cash to shareholders via repurchase than cash dividends, and there was a fall in the percentage of
firms distributing for the first time (19.35%) over the period 1972-80 to 2.56% over the period 1990-1998). Fama and French (2001) argued that share repurchases is not a major factor in the decrease in the proportion of firms paying dividends. Indeed repurchasing firms are also those which pay dividend.

Mori (2009) developed a theory in which the liquidity position of a firm has an influence on dividends. The liquidity of a firm was defined by the sequence of the estimated future values. The variables that captured the liquidity position of a firm was an index of the degree of the positive or negative difference of the current expected future cash position from the desired level. The study concluded that there is a positive relationship between liquidity and dividends. The liquidity position is an important determinant of dividend payouts. A poor liquidity position means less generous dividends due to shortage of cash.

2.2.3 Empirical studies: firms growth opportunities

The intuitive relationship between dividend payout and growth is emphasized when they looked at the relationship between a firm’s payout ratio and it is expected growth rate (Rajan and Zingales, 1995). For instance they classified firms on the New York Securities Exchange in January 2004 into six classes, based upon analyst estimates of expected growth rates in earnings per share for the next 5 years and estimated the dividend payout ratios and dividend yields for each class. The firms with highest expected growth rates pay the lowest dividends both as a percent of earnings (payout ratio) and as a percent of price (dividend yield). Just as higher growth companies tend to pay out less of their earnings in dividends, countries with higher growth payout less in
dividends. For instance, Japan had much higher expected growth in 1982-84 than the other G-7 countries and paid out a much smaller percentage of its earnings as dividends.

Gul (1999) investigated the relationship between the dividend policy and the firm’s growth opportunity in China and Japan using panel data methodology. The study used the proxies for the growth prospects which are the earnings price ratio, the ratio of market value of assets and the firm’s assets to book value of equity. The empirical results showed a negative relationship between the three variables for growth and the dividend policy for the Chinese study. The study for Japanese firms showed an insignificant relationship between the growth opportunities and dividend policy.

Barclay, et al., (1995) and Wang et al., (1993), documented that firms with more growth options generally have lower dividends. They also acknowledged that this is similar to the pecking order theory of finance by predicting that firms with high proportion of their market value accounted by growth opportunities should retain more earnings so that they can minimize the need to raise new equity capital. The market –to –book value ratio (MTBV) and growth rate (GRWTH) are used as proxies for future growth opportunities and past growth rate respectively.

John (2013) showed that payout ratios are negatively related to firms’ need to top fund finance growth opportunities. Collins et al., (1996) showed significantly negative relationship between historical sales growth and dividend payout.
D. Souza (1999) however showed a positive insignificant relationship in the case of growth and negative but insignificant relationship in case of market to book value.

2.2.4 Empirical studies: profitability as determinant of dividend policy.

Available literature suggested that dividend payout ratio is positively related to profits. Basing on Wang and Gun (1993), corporate interest and taxes over total assets, instead of using past earnings, the firms expected future earnings is employed as a proxy of corporate performance to test the signalling role of dividend policy (Bhattacharya, 1979). It is hypothesized that dividend payout is positively related to the management expectations of future net earnings.

Linter and John (1996), conducted a classic study on how U.S. managers make dividend decisions. He developed a compact mathematical model based on a survey of 28 well established industrial U.S. firms which is considered to be a finance classic. According to his publication, the dividend payout pattern of a firm is influenced by the current year earnings and previous year dividends.

Farrelly et al., (1995) surveyed 318 New York Securities exchange firms and concluded that the major determinants of dividend payments are anticipated level of future earnings and pattern of past dividend.

Pruitt and Gitman (1991), asked financial managers of the 1,000 largest U.S. firms and reported that current and past year’s profits are important factors influencing dividend payments. Baker and Powell (2000), concluded from their survey of NYSE-listed firms
that dividend determinants are industry specific and anticipated level of future earnings is the major determinant.

Naranjo et al. (1998) examined the link between profitability and the dividend policy in U.K. The study used a panel data analysis using the earnings trend model to investigate the effects of the firm’s profitability on the dividend policy. The study used the net profit from trading after subtracting depreciation and trading expenses as proxy for the profitability of the firm. They found a positive significant relationship between a firm’s dividend policy and earnings of the firm. Their results suggest that profitability of the firm increases the likelihood that firm will pay dividend.

Risk (year to year variability of earnings), determine the firm’s dividend policy (Pruitt and Gitman, 1991). A firm that has relatively stable earnings is often able to predict approximately what its future earnings will be. Such a firm is more likely to pay a higher percentage of its earnings than a firm with fluctuating earnings. In other studies Rozeff (2006), Lloyd et al., (1985) and Collins (1996) et al., used beta value of a firm as an indicator of its market risk. They found statistically significant and negative relationship between beta and dividend payout. Their findings suggest that firms having higher level of market risk will payout dividend at lower rate.

D’souza (1999) also found statistically significant and negative relationship between beta and dividend payout.
2.2.5 **Empirical studies: leverage as determinant of dividend policy.**

Dayha (2003) examined the relationship between ownership, dividend policy and leverage and conclude that managers make financial policy tradeoffs to control agency costs in an efficient manner, more recently, researchers have attempted to establish the link between firm dividend policy and investment decision.

Following the results obtained by Bradley et al., (1998), firms with high debt ratio would be expected to pay lower dividends. Leverage is measured using the ratio of total debts to total assets. Since previous studies on capital structure have found debt ratios to be related to many of the right-hand side variables included in the regression model, an instrumental variable is employed to partition leverage into an endogenous past that is attributable to the other explanatory variable, and an exogenous part that is not.

Vasiliou and Eriotis (2003) investigated the association of dividend policy with the debt ratio. The investigation is performed by considering a model that associates the corporate dividend per share at time (t) with a long-run target dividend per share (represented by the dividend variable at time t-i) the earnings per share at time t, and the debt ratio (expressed as the ratio of total debt to total assets) at time t. their regression results suggest that there is a positive association between dividend policy and the examined variables for majority of the firms listed on the Athens Securities Exchange for the period 1996 to 2001.
Pandey (2008) conducted another empirical study examining the industrial trail patterns, trend and volatilities of leverage. The level of leverage for all industries showed a noticeable increase. The study also indicated that classifying leverage percentages by the type of industry does not produce any patterns which may be regarded as systematic and significant. The trends and volatilities associated with the leverage also did not give any support to the belief and the type of industry impact on degree of leverage.

In summary, the literature suggests that there are different factors that determine dividend policy. In this paper some of the factors that could affect a firm’s dividend policy are reviewed. Several variables employed the literature are utilized as possible determinants of dividend policy. The empirical evidence further shows that dividend payout ratio is dictated to a large extent by firm size, liquidity, firm’s growth opportunities, profitability and leverage.

2.3. Gaps in literature

Agricultural exports relied heavily on a few key markets. There is a need for proactive efforts to maintain existing markets while creating new ones and increasing Kenya’s bargaining power in global agricultural markets. This could only be achieved by motivating investors through high dividend payout. Several studies in recent past have focused on financial sector but not agricultural sector. Hence there was need to streamline agricultural sector to meet expectations of Economic pillar of vision 2030.
2.4 Conceptual framework

Fraenkel and Wallen (2000) argue that most research reports cast the problem statement within the context of a conceptual or theoretical framework. A description of this framework contributes to a research report in at least two ways because it identifies research variables, and clarifies relationships among the variables. Linked to the problem statement, the conceptual framework sets the stage for presentation of the specific research question that drives the investigation being reported. For example, the conceptual framework and research question would be different for a formative evaluation study than for a summative study, even though their variables might be similar. A conceptual framework was used in research to outline possible courses of action or to present a preferred approach to an idea or thought.

Figure 2.1: Conceptual framework

<table>
<thead>
<tr>
<th>Independent variables</th>
<th>Dependent variables</th>
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</thead>
<tbody>
<tr>
<td>Conceptual framework, (Source: Author, 2013)</td>
<td>Dividend Payout Ratio</td>
</tr>
<tr>
<td>Liquidty</td>
<td>Firm Size</td>
</tr>
<tr>
<td>Current ratio</td>
<td>Log sales</td>
</tr>
<tr>
<td>Growth opportunities</td>
<td>Liquidity</td>
</tr>
<tr>
<td>Price earnings ratio</td>
<td>Current ratio</td>
</tr>
<tr>
<td>Profitability</td>
<td>Dividend Payout Ratio</td>
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<tr>
<td>Return on equity</td>
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<tr>
<td>Leverage</td>
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<tr>
<td>Asset Debt Ratio</td>
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</table>
2.5 Definition of variable:

2.5.1 Firm Size
As the firm grows in size it has the capacity to pay a higher ratio of its earning to its shareholders. Large firms are more mature so they have a capacity to pay higher dividend payout ratio which will act as a device to reduce agency problems. The natural logarithm of sales is used as a proxy for firm size. The natural logarithm of sales is used in other studies to control for scale effects in the final regression and to remove any size effects from other variables used in the model. A positive relationship between firm size and dividend payout ratio is expected.

2.5.2 Liquidity
The liquidity position of a firm is important in order to determine if a company is able to meet its short-term assets highlighting cash flow difficulties that usually arise when current liabilities are greater than current assets if the liquidity position of the firm is not good even if it is profitable it will not be in a position to pay cash dividends. The study used the current ratio as a determinant of a firm’s dividend payout ratio to proxy for liquidity. A positive relationship between liquidity and the payout was expected.

2.5.3 Growth Opportunities
A company with growth from investments as long as these are profitable, will pay less dividends and will instead pay securities dividends as it will be pre-occupied with retention for ploughing back of such money to finance viable ventures. The residual theory suggests that firms with high growth opportunities pay a lower ratio than with low
growth firms. Thus higher growth firms pay a lower portion of its earnings as dividend so as to meet its investment needs. The study used price-earnings ratio to serve as a proxy for a company’s future growth prospects. A negative relationship between the growth of the firm and the dividend payout ratio is expected.

2.5.4 Profitability

Firms with more stable earnings will payout a higher proportion of its earnings as dividends than a firm with variable earnings. To proxy for the profitability the study used the return on shareholders’ equity. A positive relationship between the profitability of the firm and the dividend payout ratio is expected.

2.5.5 Leverage

A highly levered firm is expected to return more to strengthen its equity base. Highly levered firms have more debt and interest obligations to meet thus they have a high probability of paying a low dividend payout ratio. According to Jensen (1986), the reason as to why highly leveraged firms pay a low payout ratio is that the firms are monitored by debt holders who reduce management capability of paying dividends. He also suggested that levered can substitute the dividend payout ratio in reducing the agency costs. Gugler and Yurtoglugly (2003) found negative relationship. The study uses the debt total assets ratio as a proxy for leverage. A negative relationship between leverage and the dividend policy is expected.
CHAPTER THREE
RESEARCH METHODOLOGY

3.0. Introduction

This chapter presents the research design, target population, sampling design and procedure, data collection procedure, research instruments, expected outputs of the study and economic models used to analyze the determinants of dividend payout for the study. The sample of seven agricultural firms represents 100% of agricultural firms in Main Investment Market Segment listed on the NSE. The data was obtained from financial statements of seven agricultural firms that are listed on Nairobi Security Exchange during the period 2005 to 2010 (5 years). The sources of the data are also provided in this chapter and detailed analysis of the explanatory variables, the proxies used and how the variables were constructed.

3.1 Research design

Orodho (2005) defines research design as the scheme, outline or plan that is used to generate answers to research problem. Kothari (2009) argues that a research design is a plan, structure or strategies or investigation conceived so as to obtain answers to research questions and to control variants. The research design provides a concrete framework for a study.

The design of the study was descriptive, non-experimental and uses cross-sectional time series data. Secondary data was the basis for data to be used in the study. The study used panel data methodology. The collection of panel data was obviously much more costly
than the collection of cross-sectional or time series data. Wooldridge, (2002) said that panel data has become widely available in modern research. Panel data methodology is considered to be more superior to both cross sectional estimation methods when analyzing the behaviour of micro-units in the economy. The model adopts a two-way error component model which captures both individual-specific effects. The data that is used in this study covered a five year period (from 2005 to 2010).

3.2 Target population.

Ogula (2005) defines population as any group of people, institutions, objects that have at least one characteristic in common. Mugenda and Mugenda (2003) defines target population as a process to which a researcher wants to generate the results of the study.

The population for this study was agricultural firms that were listed on the Nairobi Securities Exchange as at 2010. Financial firms were excluded in this population because their financial statements are different from those prepared by agricultural firms. The study was confined to a sample space of seven agricultural firms. To enhance representativeness and significant utilisation of the research outcome, firms included in the sample were drawn from the Main Investment Market segment in the agricultural sector key of the economy. At the Nairobi Security Exchange, the Agricultural Segment was made up of seven companies; Kakuzi specialized in Tea and Horticultural crops, Rea Vipingo plantations-Sisal, Sasini- tea and coffee, Kapchorua Tea, Limuru Tea, Willliamson Tea and Eaagads. These companies belong to the Main Investment Market Segment where the minimum authorized issued and fully paid up share capital is Kenya Shillings fifty million. The period of analysis was five years for each firm in the sample.
3.3 **Sampling technique and size.**

According to Frankel and Klallan (2000) a sample is a group from which information is obtained. They define sampling as a process of selecting a number of individual from a population. Ogula (2005) defines sample as a sub-group of a population or universe; while sampling is the process they are selected. Reddy (2007) argues out that a sample should be picked in such a way that it represents the entire population to be investigated. Kothari (2009) explains that the size sample should neither be excessively large or small. An optimal sample is one which fulfils the requirements of efficiency, representatives, reliability and flexibility.

The whole population consisted of seven agricultural firms from the main investment market segment. The census of seven agricultural firms represents 100% of agricultural firms in Main Investment Market Segment listed on the NSE.

3.4 **Data collection procedure.**

Secondary data collection is basically collecting data from documents, records and reports of others. However whichever procedure you use, certain guidelines regarding ethics in data collection, management of data collection and designing of data collection instruments will have to be kept in mind.

3.4.1 **Secondary Data**

White (2010) said that using secondary data in an Extension program can add richness and depth to the logic model that acts as a roadmap for the Extension program. Secondary data can improve the clarity of the problem and the situation surrounding the issues, and
they can also provide additional information to reinforce primary data used to show the outcome and impact of Extension programs. The main methods of data collection in the research consisted of past financial reports of these agricultural firms. The consolidated statement of comprehensive income and statement of financial position extracted from firms statements approved by the board of directors. The financial statements were audited and received unqualified opinion which was available at firms registered offices and their websites.

3.5 Data analysis.

Data analysis is the process of systematically applying statistical and/or logical techniques to describe and illustrate, condense and recap, and evaluate data. According to Smeenton and Goda (2003) various analytic procedures “provide a way of drawing inductive inferences from data and distinguishing the signal (the phenomenon of interest) from the noise (statistical fluctuations) present in the data”. An essential component of ensuring data integrity is the accurate and appropriate analysis of research findings.

Statistical Package for Social Sciences (SPSS version 17.0) was used for data analysis. Correlation between variables was performed to investigate the degree to which variables change or vary together. Fixed effects regression model was used because there were unobservable firms’ effects on the mail model. The model estimated for panel data takes the following form:
\[ Y_{it} = X_{it}\beta + \mu_{it} \] ........................................................ (3.1)

\[ i = 1, 2 \ldots N \]

\[ t = 1, 2 \ldots T \]

With \[ \mu_{it} = \eta_{it} + \lambda_t + u_{it} \] ................................. (3.2)

Where the subscript \( i \) denotes the \( i \) – th firm (the cross section dimension) and the subscript \( t \) denotes \( t \) – th year (the time series dimension), \( Y_{it} \) is the vector of exogenous variables for the \( i \) – th firm in the \( t \) – th year and \( \beta \) is a vector of slope parameters. \( \eta_{it} \) represents the time invariant (firm effects) variables and specific to the individual cross section unit in the fixed effects model. \( \lambda \) represents the time effects and \( u_{it} \) represents the stochastic error terms which is assumed to have a mean of zero and constant variant.

The analysis of pooled data for five years, correlation matrix was constructed and the technique of multiple linear regression analysis was used. The researcher used a multiple regression equation using identified key variables. The empirical model for the determination of the factors that determine the dividend payout was as follows:

\[ Y_{it} = \alpha_0 + \alpha_1 \text{Size}_{it} + \alpha_2 \text{liq}_{it} + \alpha_3 \text{grow}_{it} + \alpha_4 \text{profit}_{it} + \alpha_5 \text{lev}_{it} + \mu_{it} \] ........................................ (3.3)

Where \( i = 1, 2, 3, 4, 5, 6, 7 \)

\[ t = 1, 2, 3, 4, 5 \]

\[ \mu_{it} = \eta_{it} + \lambda_t + u_{it} \]
The subscript $i$ denotes the i-th firm (cross section dimension) and the superscript $t$ denotes the t-th year (the time series dimension).

$\Upsilon_{it}$ is the natural logarithm payout ratio for the firm $i$ at time $t$.

$\text{Size}$ is the natural logarithm of sales which measures the firm size of the firm $i$ in the year $t$.

$\text{liq}$ is the ratio of current assets to current liabilities

$\text{grow}$ is the investment opportunities of firm $i$ in year $t$

$\text{profit}$ is the return on equity of firm $i$ in year $t$

$\text{lev}$ is leverage of firm $i$ in year $t$

$\eta_i$ represents the time invariant (firm effects) variables and specific to the individual cross section unit in the fixed effects model.

$\lambda_t$ represents the time effects

$\nu_{it}$ represents the stochastic error term with two dimensions, one for the firm (i) and the other for the time (t). It is assumed to have a mean of zero and constant variance.

$\alpha_0$ is positive coefficient.
CHAPTER FOUR

DATA ANALYSIS, DISCUSSION AND PRESENTATION OF RESULTS

4.0 Introduction

In this chapter the results of the data analysis are presented. The data were collected and then processed in response to the problems posed in chapter one of this thesis. Five fundamental objectives drove the collection of the data and subsequent data analysis. These objectives were accomplished. The findings presented in this chapter demonstrated the potential for merging theory and practice.

4.1 Descriptive Statistics

This is the analysis of the combined data from all the firms. The first step of analysis of a multivariate analysis data is a table of mean and standard deviation.

Table 4.1: Descriptive statistics

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firm Size</td>
<td>35</td>
<td>20.32</td>
<td>21.42</td>
<td>20.8088</td>
<td>0.30406</td>
</tr>
<tr>
<td>Growth</td>
<td>35</td>
<td>0.00</td>
<td>85.67</td>
<td>13.9685</td>
<td>18.21197</td>
</tr>
<tr>
<td>Profitability</td>
<td>35</td>
<td>0.00</td>
<td>22.87</td>
<td>9.1662</td>
<td>9.01979</td>
</tr>
<tr>
<td>Liquidity</td>
<td>35</td>
<td>0.04</td>
<td>14.14</td>
<td>1.2650</td>
<td>2.85687</td>
</tr>
<tr>
<td>Leverage</td>
<td>35</td>
<td>0.32</td>
<td>2.69</td>
<td>1.4625</td>
<td>0.81191</td>
</tr>
<tr>
<td>Dividend</td>
<td>35</td>
<td>0.00</td>
<td>2.50</td>
<td>0.5604</td>
<td>0.70541</td>
</tr>
<tr>
<td>Valid N (list wise)</td>
<td>35</td>
<td>0.00</td>
<td>2.50</td>
<td>0.5604</td>
<td>0.70541</td>
</tr>
</tbody>
</table>
The dependent variable, dividend payout has a minimum value of 0.00 and the maximum value of 2.50 with standard deviation of 0.70541. Growth had the highest variability with standard deviation of 18.21197 and the lowest standard deviation of 0.30406 reported by firm size.

4.2 Response Rate

For many years, a survey's response rate was viewed as an important indicator of survey quality. Many observers presumed that higher response rates assure more accurate survey (Rea and Parker 1997). But because measuring the relation between non-response and the accuracy of a survey statistic is complex and expensive, few rigorously designed studies provided empirical evidence to document the consequences of lower response rates, until recently.

Such studies have finally been conducted in recent years, and they are challenging the presumption that a lower response rate means lower survey accuracy. One early example of a finding was reported by Visser, Krosnick, Marquette and Curtin (1996) who showed that surveys with lower response rates (near 20%) yielded more accurate measurements than did surveys with higher response rates (near 60 or 70%).

Holbrook et al., (2007) assessed whether lower response rates are associated with less unweighted demographic representativeness of a sample. By examining the results of 81 national surveys with response rates varying from 5 percent to 54 percent, they found that surveys with much lower response rates were only minimally less accurate
All the seven firms selected for study participated as result of constant follow-ups. Therefore response rate was 100% which lead to more reliable results.

### 4.3 Correlation Matrix

The first step was to construct correlation matrix for various possible combinations of dependent and independent variables. The correlation matrix shows that dividend payout has a positive correlation with and all other factors except growth of the firm which has a negative correlation. Profitability of a firm has a positive correlation with liquidity and growth, but negative correlation with firm size and leverage. We accept the entire alternatives hypothesis.

The outcome of this exercise was the understated correlation matrix.

#### Table 4.2: Correlation Matrix

<table>
<thead>
<tr>
<th></th>
<th>Profitability</th>
<th>Liquidity</th>
<th>Size</th>
<th>Growth</th>
<th>Leverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Div. Payout</td>
<td>1</td>
<td>.205 (.726)</td>
<td>.514 (.314)</td>
<td>.018 (.903)</td>
<td>- .018 (.903)</td>
</tr>
<tr>
<td>Profitability</td>
<td></td>
<td>1</td>
<td>.387 (.228)</td>
<td>-.003 (.206)</td>
<td>.160 (.601)</td>
</tr>
<tr>
<td>Liquidity</td>
<td></td>
<td></td>
<td>1</td>
<td>-.142 (.688)</td>
<td>- .045 (.899)</td>
</tr>
<tr>
<td>Size</td>
<td></td>
<td></td>
<td></td>
<td>1</td>
<td>.177 (.806)</td>
</tr>
<tr>
<td>Growth</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Leverage</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Measuring at 5% significance level (*p < .05)
There was no multicollinearity as all correlation scores below + 0.8 or – 0.8, Bryman (2006). The strongest predictor of dividend payout is noted as a correlation score of positive 0.514. This score illustrates a positive correlation, as the liquidity increases the so does the dividend. The liquidity has a negative correlation with firms’ size and growth but has a positive relationship with leverage. Firm size has a positive correlation with both growth and leverage.

Growth and leverage of a firm has a positive correlation. From the correlation matrix all factors that have a positive correlation indicates that the degree to which the variables vary is the same. If one variable increases the other variable increases and vice versa. When two variables are negatively correlated it indicates that if one variable increases the other variable decreases and vice versa.

4.4 Regression Results

The multiple linear regression equation with dividend payout (Y) as dependent variable and other independent variables profitability, liquidity, firm size, growth and leverage was formulated.

The model is of the form:

\[ Y = b_0 + b_1 X_{1it} + b_2 X_{2it} + b_3 X_{3it} + b_4 X_{4it} + b_5 X_{5it} + e_i \]

Where, \( b_0 \) is the regression constant and \( b_{1it}, b_{2it}, b_{3it}, b_{4it}, \) and \( b_{5it} \) are regression coefficients.

\( Y \) is the dependent variable which is dividend payout.
The independent variables $X_1$, $X_2$, $X_3$, $X_4$ and $X_5$ are profitability, liquidity, size, growth and leverage respectively, and $e_i$ is the error term.

The regression coefficient indicates the amount of change in the value of dependent variable for a unit change in independent variable.

The empirical model of regression results is shown below.

**Table 4.3: Regression Results of Empirical Model**

<table>
<thead>
<tr>
<th>R</th>
<th>R Square</th>
<th>ADJ. R Square</th>
<th>STD. Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>.523</td>
<td>.273</td>
<td>.236</td>
<td>2.756576</td>
</tr>
</tbody>
</table>

$R^2$ the coefficient of determination, gives an estimate of the proportion of variance of dependent variable accounted for by the independent variable. It is used in the context of statistical models whose main purpose is the prediction of future outcomes on the basis of other related information. It is the proportion of variability in a data set that is accounted for by the statistical model. It provides a measure of how well future outcomes are likely to be predicted by the model. The coefficient of determination ($R^2$) reveals that independent variables explain 27% of the model. The table 4 below gives significant coefficients.

**Table 4.4: Regression Coefficients and their Significance**

<table>
<thead>
<tr>
<th>Regression coefficients</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>-8.476</td>
</tr>
<tr>
<td>$X1$(profitability)</td>
<td>0.960*</td>
</tr>
<tr>
<td>$X2$(liquidity)</td>
<td>7.1766*</td>
</tr>
<tr>
<td>$X3$ (Firm size)</td>
<td>2.570*</td>
</tr>
<tr>
<td>$X4$ (Growth)</td>
<td>-.0865*</td>
</tr>
<tr>
<td>$X5$ (Leverage)</td>
<td>-.005119</td>
</tr>
</tbody>
</table>
The regression coefficients of profitability, liquidity, size are positive and significant at 5% level of significance. The regression coefficient of growth is negative and insignificant at 5% level of significance. Leverage has a negative regression coefficient and is not significant at 5% level of significance.

This is summarized in the table below:

**Table 4.5: Key Variables Affecting Dividend Payout Ratio**

<table>
<thead>
<tr>
<th>Key Variables</th>
<th>Relationship with Dividend Payout Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profitability</td>
<td>positive</td>
</tr>
<tr>
<td>Liquidity</td>
<td>positive</td>
</tr>
<tr>
<td>Firm size</td>
<td>positive</td>
</tr>
<tr>
<td>Growth</td>
<td>negative</td>
</tr>
</tbody>
</table>

**Table 4.6: Model ANOVA**

<table>
<thead>
<tr>
<th></th>
<th>SS</th>
<th>D.o.f</th>
<th>MS</th>
<th>F Value</th>
<th>PROB.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>277.249</td>
<td>5</td>
<td>55.450</td>
<td>7.297</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>737.075</td>
<td>97</td>
<td>7.599</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1014.324</td>
<td>102</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The ANOVA table indicates that the model used is significant as compared to the null model. The ANOVA table indicates that the model used is significant. This implies we reject the null hypothesis which states that the regression coefficients are all equal to zero.
Firms’ size has a positive influence on the amount of dividends payout which agrees with the hypothesis tested; the bigger the firm the more it pays to due to many factors associated with economics of scale. The large firms have higher dividend payouts as compared to smaller firms. Mori (2009) and Al-Kunari (2010) found that larger firms tend to have higher payout compared to small firms, larger firms have easier access to the capital markets and are therefore less dependent on internal funds. The empirical results are inconsistent with Graham et al., (2005) who found no significant effect or dividend pay-out.

The regression coefficient of liquidity is positive at 5% level of significance. This implies that the liquidity position of a firm is an important determinant of dividend payout, thereby indicating that a good liquidity position increases firms’ ability to pay higher dividends. Generally firms with good and stable cash flows are able to pay high dividends easily compared with unstable cash flows. A poor liquidity positions means less payment of dividends due to shortage of cash. The empirical results are consistent with the findings of Al-malkawi and Husam-Aldin Nizar (2008) Bens et al., (2004), all found positive and significant relationship between the liquidity and the dividend payout. This means that the liquidity position of Kenyan agricultural firms determine dividend payout.

The regression coefficient on growth opportunity is negative at 5% level of significance and it indicates that growth opportunity of a firm has a negative influence on the dividend pay-out. This may due to the fact that most of the profit is re-invested into company or treated as capital reserve. These results are consistent with the findings of John (2013), Rajan and Zingales (1995), Gul (1999), Lioyal et al., (1985), Baclay et al. (1995) and
Wany et al., (1993). Who found negative and significant relationship between the dividend payout and growth. The results are contrary to D. souza (1999) empirical findings that showed a positive insignificant relationship in the case of growth.

The regression coefficient of the profitability is positive and significant at 5% level of significant. This implies profitability has a positive influence on the amount of dividend pay-outs. This results are consistent with the findings of Baker and Powell (2000), Baker and Powell (2000), Raheja(2005), Faranha (2003), Fama and French (2002) Adaoglu (2000), Amidu and Abor 2006 and Belans et al., (2007) and deviates from Collins et al., (1996), D’ Souza (1999), and Jeong (2008).

The regression coefficient of leverage is negative and is not significant at 5% level of significance. This indicates that although leverage has a negative influence on amount of dividend pay-outs it’s not significantly affecting it. The result is consistence with the findings of Jensen (1986), Bradley et al., (1998). The findings are contrary to Vasiliou and Eriotis (2003) and Pandey (2008).

In the present chapter researcher analysed and interpreted the obtained data and discussed the result. In the next chapter summary of the research work, major findings, recommendation and suggestion were made for the future research.
CHAPTER FIVE
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction.
This chapter provides summary, conclusion and recommendations to the study. After having discussed in details the findings of the research, the objectives of the study have been revisited to tie them into the current findings of the research. Suggestions for future research have been discussed in light of what the current study has failed to look at and the newer avenues that the study has opened up for the future research.

5.1 Summary
The regression coefficients of profitability, liquidity, size are positive and high at 5% level of significance. The regression coefficient of growth is negative and low at 5% level of significance. Leverage has a negative regression coefficient and is not significant at 5% level of significance. This indicates that firms’ size has a positive influence on the amount of dividends paid; the bigger the firm the more it pays to due to many factors associated with economics of scale. The regression coefficient on growth opportunity is negative at 5% level of significance and it indicates that growth opportunity of a firm has a negative influence on the dividend pay-out. The regression coefficient of liquidity is positive at 5% level of significance. This implies that the liquidity position of a firm is an important determinant of dividend pay-out, thereby indicating that a good liquidity position increases firms’ ability to pay higher dividends. The regression coefficient of the profitability is positive and significant at 5% level of significant. This implies profitability has a positive influence on the amount of dividend pay-outs. The regression coefficient of leverage is negative and is not significant at 5% level of significance. This
indicates that although leverage has a negative influence on amount of dividend pay-outs it’s not significantly affecting it.

5.2 Conclusion

This study examined the determinants of dividend payment agricultural firms, we found, inter alia, that there is a positive relationship between the profitability and the dividend payment. When profitability increases the firms are going to pay higher dividends. It is also observed that liquidity and size are also positively related with the dividend payout.

Growth of the firms has a negative relationship with the dividend payout an indication that an increase in any will result in reduced dividend earnings. This is in agreement with other researchers.

5.3 Recommendations from the Study

The research has made several recommendations aimed at addressing emerging issues and challenges so as to realize its full potential. This will be achieved through measures that include increasing dividend payout.

The profitability has positive & significant effects on dividend, the government should support the agricultural firms to be more profitable so that farmers get high dividend. The government should waive huge debts worth billions of shillings which farmers owned savings societies. The result is to revive the agricultural sector; this will see the price of the commodities shoot up, to the joy of farmers. What farmers require is sufficient capital to invest in modern crop production as a profitable venture. The Agriculture ministry
should supply subsidized fertilizer to be used on planting and top dressing of the crop as farmers are unable to afford the higher prices by retailers this will cut down the production costs making the firms more profitable. The firms should come with initiatives aimed at not only at saving billions, increasing the company’s profits, but also tripling farmers earnings by revolutionizing quality and quantity of agricultural produce.

Liquidity has positive & significant effects on dividend payout, access to rural finance particularly credit to producers is necessary to encourage rural agricultural development. This is because the period between planting and harvesting is long. Sometimes it is in excess of one year like in the case of coffee. Providing the producers with working capital in the short run enables them to purchase yield-enhancing inputs. Similarly competition amongst traders has also been affected by lack of adequate working capital because of lack of credit. This has reduced competitiveness in commodity trading. Rural financial institutions encourage savings in those areas and stimulate off farm activities. But the medium and small enterprise programme has been able to reduce the working capital constraints of most of the traders. Support of an agricultural credit system one that considers risks in agriculture could alleviate some of the working capital constraints by producers. This will make firms more liquid and pay high dividend that increases both savings and investment to expand manufacturing exports. There is a wealth of policy options available to improve the performance of the agricultural sector and reduce the incidence of declining performance of the rural economy. On a macro-economic level such policy options include, re-distribution of government budgets towards food insecure populations including poor agricultural producers, re-visiting the role of government in
allocating scarce resources to ensure efficient usage and reformulation of general economic policy goals such as “fair” income re-distribution, growth, full employment and sustainable public debts.

Firm’s growth opportunity has negative but significant on dividend payout, the government should come up with policies that spar firm growth like setting up state owned marketing boards, government storage, price stabilization activities and storing perishable food items instead of allocating funds for the purchase of food when needed. This calls for a debate on the effectiveness of state interventions as well as agricultural producer policies. This will make fund available for growing and expanding firms to pay high dividend to shareholders.

The firm size has positive & significant effect on dividend payout this implies that there government should allocate more resources Kenya should also streamline agricultural sector to be more globally competitive and quick expansion. Agricultural producer policies should focus on encouraging domestic production through input subsidies, provision of public goods such as research and training, market interventions to stabilize process and often free trade interventions. In theory, high consumer prices provide an incentive for producers to increase production and sales volume. To eventually, increase production most small scale farmers in the country should be able to capitalize on price rises due to access to markets and key production inputs such as seed, fertilizer, technical know-how, irrigation facilities land and credit to improve on production and sales of their produce.
Agricultural policy options to prop up sustainable intensification of crop production could include, seed sector development, farmer education and extension, incentive schemes for adoption of sustainable practices, schemes to value ecosystem services and penalize unsustainable practices, integrated approaches to soil fertility management, storage, transport, promotion of private sector input delivery and removal of policy constraints that act as a disincentive for this, formulation of policies that promote sustainable rural financial intermediation. Lastly, the government should train and post more agriculture extension officers to rural areas and ensure they are given performance targets. Many poor farmers in rural areas lack this basic knowledge on disease control and farming techniques. All the above measures to promote increase in firm size as agricultural produce and sales volume will increase hence high dividend payout to shareholders.

5.4 **Recommendations for Further Research.**

The researcher recommends the investigation on the relationship between managerial incentives and firm dividend payout. There is a need to further analysis with respect to corporate governance and dividend payout. Examining the dynamic and determinants of dividend payout in relation with corporate governance would be an important and interesting exercise at the time when Securities and Exchange Commission of Kenya wants to revise the code of corporate Governance. The study suggests future studies on the business risk, quality of financial data and tax as determinants of dividend payout.
REFERENCES


Colin Thirtle, XIRZ, Lin, V Mackenzie- Hill and Steve Wiggins (2001), Relationship between changes in agricultural productivity and the incidences of poverty in developing countries.


APPENDIX 1: RESEARCH QUESTIONNAIRE

Please tick or fill the required information in the space provided. Your contribution will be held in confidence.

Questionnaire No …/……/…………/…………… Date ……/……/………

PART A

1. Company information

a. Name of Company:………………………………………………………………………………

b. Postal Address:……………………………………………………………………………………

c. Physical Address:………………………………………………………………………………

2. Respondent’s information

a. Job title :…………………………………………………………………………………………

b. Other specify

……………………………………………………………………………………………………
PART B

1. Firm size

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market capitalization</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of employees</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Assets</td>
<td></td>
<td></td>
<td></td>
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</table>

2. Liquidity

<table>
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<tr>
<td>Current Assets</td>
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<tr>
<td>Current Liabilities</td>
<td></td>
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</table>

3. Growth opportunities

<table>
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<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Price Per share</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Earnings per Share</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</table>
4. Profitability

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on capital employed</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Return on shareholders’ Fund</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Return on Total Assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Earnings per share</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

5. Leverage

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total companies liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total companies Assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Thank you.
APPENDIX 2: AGRICULTURAL FIRMS LISTED IN THE NSE

1. Rea Vipingo Ltd.
2. Sasini Tea & Coffee Ltd.
3. Kakuzi Ltd.
4. Kapchorua Tea,
5. Limuru Tea,
6. Williamson Tea
7. Eaagads
APPENDIX 3: LETTER OF INTRODUCTION

Kenyatta University
P.O Box 43844,
Nairobi.
25th August, 2009

Dear respondent,

I am a postgraduate student in the School of Business, department of Accounting and finance at Kenyatta University. I am conducting a study to investigate determinants of dividend payout policy on Agricultural firms listed on NSE. This is in partial fulfilment for the award of the Degree of Masters of Science Finance.

In this study, you have been selected as a participant. I would, very much, appreciate your cooperation by responding to all items in the attached questionnaire. Your name and that of your firm will not be required unless you deem it necessary. The information you provide will only be used for academic purposes and will therefore remain confidential.

Yours sincerely,

CALISTUS WEKESA WASWA
APPENDIX 4: FORMULAE USED IN COMPUTATION OF VARIABLE

PER= \[
\frac{\text{Market price per share (MPS)}}{\text{Earnings per share (EPS)}}
\]

Capital Employed=\(\text{Fixed Assets + Current Assets - Current Liabilities}\)

ROCE= \[
\frac{\text{Profit before interest and taxation} \times 100}{\text{Capital Employed}}
\]

Current ratio = \[
\frac{\text{Current Assets}}{\text{Current Liabilities}}
\]

Debt Asset Ratio= \[
\frac{\text{Total Liabilities}}{\text{Total Assets}}
\]

Number of completed surveys \[
\frac{\text{Number of completed surveys}}{\text{Number of people contacted}} = \text{Response Rate}
\]