EFFECTS OF REGULAR DIVIDEND POLICY ON A FIRM'S FINANCIAL PERFORMANCE: A CASE OF SERENA GROUP OF HOTELS IN KENYA.

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UNITED STATES INTERNATIONAL UNIVERSITY- AFRICA

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FINANCIAL PERFORMANCE: A CASE OF SERENA GROUP OF
HOTELS IN KENYA

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Business in Partial Fulfilment of the Requirement for the Degree of
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STUDENT’S DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution, or university other than the United States International University – Africa.

Signed: ______________________  Date: ______________________

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This project has been presented for examination with my approval as the appointed supervisor.

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ABSTRACT

The purpose of the study was to establish the effects of regular dividend policy on a firm’s financial performance: a case study of Serena Group of hotels in Kenya. The study was guided by the following research objectives: to determine the effects of regular dividend policy on a firm’s share price, to determine the effects of regular dividend policy on firm’s liquidity and to determine the effects of regular dividend policy on firm’s leverage.

The study used descriptive research. The target population was 118 employees of Serena Group of hotels. Stratified random sampling was used to select a sample size of 54. Structured questionnaires were also used to collect data which was analysed using descriptive research design. Pearson correlation and regression analysis was used to determine the influence of independent variables on the dependent variable. Statistical Package for Social Sciences (SPSS) software was used to analyse data. Data was coded according to different variables of the study. Results were presented and interpreted using frequencies, mode, mean percentiles, variances and standard deviations.

The study found that respondents strongly agreed that higher earnings per share and dividends per share ratios result to a higher share price leading to better financial performance, increase in dividend payment increases stock prices leading to better financial performance, increase in cash dividends leads to increase in share price resulting to better financial performance of your organization, favourable dividend announcements attracts investors leading to better financial performance and high share price leads to increase in dividend payment resulting to better financial performance increase in cash dividends leads to increase in share price resulting to better financial performance of your organization.

The study found that better financial performance and increase in financial leverage leads to better returns to existing shareholders resulting to better financial performance in the organization. In addition, respondents also agreed that agreed that use of no debt increases dividend payment resulting to better financial performance and increase in financial leverage leads to better returns to existing shareholders resulting to better financial performance. However, there was a disagreement on use of relatively less debt in total capital creates room to pay dividends leading to better financial performance in
the organization and leverage increases your company’s finances hence more funds to pay dividends leading to better financial performance of your organization.

The study found that regular dividend policy improves the liquidity of the organization leading to better financial performance; good cash position means the company can distribute cash dividends leading to better financial performance and high firm liquidity leads to better financial performance. However, there was a disagreement on paying higher dividend in the organization leads to better financial performance and distribution of stock dividends leads to better financial performance.

The study concluded that share price is affected by higher earnings per share, increase in cash dividends and dividend per share ratio. In addition, increase in dividend payment increases stock prices, high share price leads to increase in dividend payment favourable dividend announcements attracts investors and increase in financial performance in an organization, increase in dividend policy in an organization is influenced by high debt to equity ratio, and organizations can use dividend policy to increase its liquidity. In addition, the greater the cash flow/funds an organization has the better the ability to pay dividend and high firm liquidity leads to better financial performance. However, paying higher dividend and distribution of stock dividend will not influence and organizations financial performance and organization will not be able to pay dividend if they have led debt in total capital. The study recommended that similar study should be done in other organization to find out if factors that are affecting firms listed at the Nairobi securities exchange are similar to companies that are not listed at the Nairobi securities exchange.
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DEDICATION

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ACRONYMS AND ABBREVIATIONS

SPSS - Scientific Package for Social Sciences
NPM - Net Profit Margin
DER - Debt to Equity Ratio
EPS - Earnings per Share
DPS - Dividend per Share
REPS - Retained Earnings per Share
NSE - Nairobi Securities Exchange
DR - Debt Ratio
ROE - Return on Equity
UK - United Kingdom
GCC - Gulf Cooperation Council
BSE - Bombay Stock Exchange
BEI - Indonesia Stock Exchange
DES - Daftar Efek Syariah
CR - Current Ratio
DPR - Dividend Pay-out Ratio
IOS - Investment Opportunity Set
CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

The main aim of a firm is to maximize firm value and stockholders’ wealth (Ali & Chowdhury, 2010). Investment decisions, financing decisions and dividend decisions are financial decisions that could have an impact on the value of a firm (Uddin & Chowdhury, 2005). According to Fong (2007), he argues that what investment firms make will determine their future gain and potential dividend amount. Musyoka (2015) argued that, dividends are payments which are distributed to shareholders for the time and uncertainties they took in investing with a firm of their choice.

According to Azhagaiah and Priya, (2008), Baker, Veit and Powell (2001) and Pandey (2005), state that an organization is able to create shareholders’ wealth through increase in sales, growth in profit margin, capital investment and capital structure decisions. Baker, Veit and Powell (2001), states that dividend policy can affect firm value and also shareholders’ wealth. Priya and Nimalathasan (2013), assert that regular dividend policy is regarded as an instrument of wealth distribution to shareholders.

According to Damodaran (2011), “a firm that seeks to maximise wealth has to invest wisely. They have to find the right kind and mix of financing to fund these investments and return cash to their owners if there are no enough good investments in order to increase shareholders’ wealth”. Shareholders’ wealth is the present value of the expected return that shareholders will get from the companies that they have invested. Shareholders can benefit from their investments when the stock price appreciates or an increase in dividend payments (Akit, Hamzah & Ahmad, 2015).

The effect of regular dividend policy on shareholders’ wealth is important to management, investors who plans their portfolios. Some scholars believe that regular dividend policies are irrelevant in determining the wealth of shareholders while others argue that regular dividend policies are relevant and greatly influence the wealth of shareholders (Ozuomba, Okaro & Okoye, 2013). Ozuomba, Anichebe and Okoye (2016), researched on the effect of regular dividend policies on wealth maximization in public companies in Nigeria. It was revealed that regular dividend policies of public limited companies influence the wealth of shareholders in Nigeria. Omorogie and Eromosele
(2016) conducted a research on regular dividend policy and shareholders’ wealth: evidence from quoted banks in Nigeria between 2010-2014. Findings revealed that there was a significant relationship between dividend per share (DPS) and Shareholders’ wealth. The study also found a positive and significant relationship between retained earnings (RE) and shareholders’ wealth and a negative and significant relationship between earnings per share (EPS) and shareholders’ wealth. It was recommended that firms should operate a regular dividend policy that tends to satisfy the need of shareholders as well as the investment need of the firm.

Dividends are compensatory distribution to equity shareholders for both time and investment risks undertaken (Uwuigbe, Jafaru & Ajayi, 2012). Pandey (2010) argues that dividend is a portion of a company’s net earnings which the directors recommend to be distributed to shareholders in proportion to their shareholdings in the company. It is usually expressed as a percentage of nominal value of the company’s ordinary share capital or as a fixed amount per share. Dividend is the return that accrues to shareholders as a result of the money invested in acquiring the stock of a given company (Erika & Okafor, 2002).

Ross, Westerfield and Jaffe (2002), states that dividend is used to determine the amount of money that will be given to investors and money that the firm will retain for investment. In addition, regular dividend policy can be used to provide information to stakeholders concerning firm’s performance. Brealy, Myers and Marcus (2007), argue that regular dividend policy is a decision of whether to pay out earnings as dividends or to reinvest them. Nissim and Ziv (2001) say that regular dividend policy is the regulation and guidelines that a company uses to decide whether to make divided payments to its shareholders. Murekefu and Ouma (2012) asserts that cash dividend announcement conveys valuable information that shareholders do not know regarding management’s assessment of a firm’s future profitability, hence reducing information asymmetry. Investors can use such information to assess firm’s financial performance and make investment decisions.

According to Afza and Mirza (2011), knowledge about regular dividend policy helps financial researchers in explaining the impact of company specific factors on corporate value. Regular dividend policy’s decoding contributes not only to the micro level but also to the analysis of several macroeconomic issues such as; if cash dividends constitute a
part of national income and if any variation in corporate dividend pay-outs may affect the corporate propensity to save and reinvest. Therefore, corporate pay-out policy is of great importance for the corporation and also for the economy as a whole (Afza & Mirza, 2011). Dayha, McConnell and Travlos (2003), asserts that based on research, firms use dividend as a mechanism for financial signalling to the outsiders regarding the stability and growth prospects of the firm and dividend also plays a big role in firm’s capital structure. In addition, firms give dividend to shareholders when all investment projects with positive net present values have been financed. According to Gordon and Lintner (2012) bird in hand theory, it was shown that there is a direct relationship between firm’s regular dividend policy and its market value. Amidu and Abor, (2006) regular dividend pay-out policy decision of listed firms in Ghana Stock Exchange is influenced by profitability, cash flow position, and growth scenario and investment opportunities of the firms. Profits have long been regarded as the primary indicator of a firm’s capacity to pay dividends. Al-Kuwari (2009), finds a significantly positive relationship between the current and past yrs.’ profits of a company.

Bhaduris (2002) states that dividends are seen by outsiders as a signal of finance health. A firm with a constant stream of dividends will face less asymmetric information when entering the equity market. Additionally, dividend payments decrease the amount of internal funds and increase the need for external financing. Regular dividend policy allows firms to release resources when they do not have profitable projects and send information about a firm’s future expectations to capital markets. Marsh and Merton (1987), posit that the patterns of regular dividend policies differ across firms and even countries. A strong sustainable regular dividend pay-out policy can be articulated with good management. It shows to prospective investors and shareholders that the company is making sound financial decisions. It is one of the reasons why companies do not want to cut their dividend, as doing so signals that management has not been able to run the company efficiently.

According to Amadasu (2011), North American companies have higher pay-outs than Western European and Japanese companies. This is because North American companies use capital market for financing while Western European and Japanese companies use intermediated financing. In contrast, dividend payment is discouraged in France and Italy. Erliotis (2005) asserts that Greek firms distribute dividend each year according to their target pay-out ratio, which is determined by distributed earnings and size of these firms.
Henzel (2013) states that understanding regular dividend pay-out 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 pay-out 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 which excludes non-cash items such as depreciation.

Velnampy and Kalaivarasi (2014) conducted a research on regular dividend policy and firm performance: evidence from the manufacturing companies listed on the Colombo Stock Exchange. Findings revealed that regular dividend policy are not correlated to the firm performance measures of the organization. Arnott and Asness (2003) conducted a study on surprise higher dividends higher earnings growth. It was revealed that future earnings growth is correlated with high regular dividend pay-out. It was argued that expected earnings growth is fastest when current pay-out ratios are high and slowest when pay-out ratios are low and further stated that companies that pay high dividends are generally confident in their ability to provide strong earnings growth in the future.

Uwalomwa, Jimoh and Anijesushola (2012) conducted a research on regular dividend policy and firm performance on firms listed in Nigeria. Findings revealed that there is a significant positive association between the performance of firm’s and regular dividend pay-out of the sampled firms in Nigeria. Yegon, Cheruiyot, and Sang (2014) conducted a study on effects of regular dividend policy on firm’s financial performance an econometric analysis of listed manufacturing firms in Kenya. It was revealed that there was a significant positive relationship between regular dividend policies of organizations and firm’s profitability.

Serena group of Hotels is a hospitality company which operates up-scale hotels and resorts in East Africa, Southern Africa and South Asia. It has a collection of 36 luxury resorts, safari lodges, and hotels, which are located in East Africa (Kenya, Tanzania, Rwanda, Uganda, and Mozambique) and Central and South Asia (Pakistan, Afghanistan, and Tajikistan). The Serena Hotels Group trades under the name Tourism Promotion Services (TPS Serena). The company is listed on the Nairobi Stock Exchange (NSE), where it trades under the symbol TPS. Serena Group of hotel has around 25 properties in Africa (Mozambique, Rwanda, Tanzania, and Uganda.). In addition, it also has 11 properties in Asian countries of Afghanistan, Pakistan, and Tajikistan. Among its prominent hotels are the Islamabad Serena Hotel and the Kabul Serena Hotel (TPS}
Serena, 2017). Serena Hotel adopts regular dividend policy to pay its shareholders and regardless of the earnings, the hotel has to pay dividends to its shareholders.

1.2 Problem Statement
Many organizations today do not see the importance of putting the regular dividend policy concept in place when undertaking various activities in their modern day business. Regular dividend policy is not only practiced, but because it has effects on a firm’s financial performance. Yegon, Cheruiyot and Sang (2014) conducted a research on effects of regular dividend policy on firm’s financial performance an econometric analysis of listed manufacturing firms in Kenya. Findings revealed that; there was a significant positive relationship between regular dividend policies and firm’s profitability.

Enekwe, Nweze and Agu (2015), conducted a research on the effect of dividend pay-out on performance evaluation of a firm. It was revealed that dividend pay-out was a major factor affecting firm financial performance. Uwuigbe, Jafaru, and Ajayi, (2012) conducted a research on regular dividend policy and firm performance. It was revealed that there exist a significant relationship between dividend policy and firm financial performance. Murekefu and Ouma, (2014) investigated the relationship between dividend pay-out and firm performance. It was revealed that dividend pay-out was a major factor affecting firm performance.

Musyoka (2015) investigated the effect of regular dividend policy on financial performance of firms listed at the Nairobi Securities Exchange. It was established that there was a significant positive relationship between regular dividend policy and financial performance of firms listed at the NSE. In addition, a lot of research has been done on dividend policy and financial performance in other industries but none has been done on effects of regular dividend policy on a firm’s financial performance in Serena Group of Hotels. Therefore, the study tends to bridge this gap.

1.3 General Research Objective
The study’s general objective was to determine the effects of dividend practice on a firm’s financial performance: A case of Serena group of hotels in Kenya.

1.4 Specific Research Objectives

1.4.1 To determine the effects of regular dividend policy on a firm’s share price.
1.4.2 To examine the effects of regular dividend policy on firm’s leverage.

1.4.3 To determine the effects of regular dividend policy on firm’s liquidity.

1.5 Significance of the Study

1.5.1 The Management of the Serena Groups of Hotels
The management of Serena Hotel will be able to determine the effects of dividends on firm’s financial performance. Through this, managers will be able to make prudent decisions regarding dividend policies.

1.5.2 The Government
The government of Kenya will be enlightened in a bid to make policies relating to dividends taxes. The knowledge of the effect of dividends on the financial performance of the firm will assist in ascertaining the appropriate amount of tax to pay for dividends paid out and their effects on firm’s financial performance.

1.5.3 Financial Consultants
This study will enable financial consultants to offer proper services for example, financial advice to their clients. This relates to optimal regular dividend policy where the share value of their firms in the stock market can be maximized.

1.5.4 Scholars and Academicians
The study will be of help to scholars and academicians who may wish to use its findings as a basis for further research on this subject.

1.5.5 Investors
Investors who may need to know the relationship between dividends policy and financial performance of the firm for them to choose which firm to invest their funds in and as a result shun impetuous investment decisions.

1.6 Scope of the Study
The main aim of the study was to determine the effects of dividend policy on a firm’s financial performance. The study was carried out in Serena group of hotels. The target population was 118 managers across Serena Hotels in Kenya. The main challenge faced during the research was getting the interviewees to divulge information about their company to an outsider despite explaining the importance of the study. The data was collated from September to December 2017.
1.7 Definition of Terms

1.7.1 Dividends
Dividends are payments which are apportioned to shareholders for the time and risks they took in investing with a firm of their choice (Musyoka, 2015).

1.7.2 Financial Performance
According to Meigs, Jan and Sue (2013), financial performance is the process of measuring the results of a firm’s policies and operations in monetary terms and is used to measure firm’s overall financial health over a given period of time.

1.7.2 Regular Dividend Policy
Regular dividend policy is the process where shareholders receive dividend at regular intervals and investors are mainly retired persons, widows and other financially weaker persons in the community who are in need of consistent income (Nemanja, Morley, Slavic and József, 2016).

1.7.3 Leverage
Leverage is borrowing mostly in terms of money, from an outside source with the promise to pay back the principal plus interest at the agreed upon interest and time (Pandey, 2009).

1.7.4 Liquidity
Liquidity is the ability of a firm to meet short term obligations using the firm’s assets that can be quickly converted to cash since cash is the most liquid form of asset (Olang, Akenge & Mwangi, 2015).

1.7.5 Share Price
A share price is the price of a single share of a number of sellable stocks of a company, derivative or other financial asset (Seitz, 1990).

1.8 Chapter Summary
This chapter covered background of the study and problem statement. It has also highlighted specific objectives that were used, importance of the study, and scope of the study and definition of terms. Chapter two discussed literature review based on specific objectives. Chapter three examined research methodology that was used. Chapter four
covered findings based on data collected from the field while chapter five discussed discussions of the findings.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction
This section analysed literature related to the effects of regular dividend practise on firm’s financial performance. The study was guided by research specific objectives; to determine the effects of regular dividend policy on a firm’s share price, to examine the effects of regular dividend policy on firm’s leverage and to determine the effects of regular dividend policy on firm’s liquidity. This chapter also included a critical review of the literature and a summary of the chapter after the review.

2.2 Effects of Regular Dividend Policy on Firm’s Share Price
Khan, Aamir, Qayyum, Nasir and Khan (2011) conducted a research on the effects of regular dividend policy on company’s share earnings. Total population was 55 non-financial companies based on Karachi Stock Exchange. Regression analysis was used to determine relationship between variable. It was established that there was a positive relationship between company’s regular dividend policy and the movement of its share price. Attah-Botchwey (2014) conducted a study on the impact of a company’s regular dividend policy on the overall share price of various listed organizations in Ghana between 2005 and 2009. Findings revealed that an increase in company’s dividends will lead to an increase of the company’s share price.

Oyinlola and Ajeigbe (2014) investigated the impact of dividend policy on stock prices of quoted firms in Nigeria. It was revealed that dividend pay-out and retained earnings are significantly relevant in the market price per share of firms. The study recommends that firms can increase shareholders’ wealth in terms of cash and/or stock dividend and capital appreciation by adopting optimal trade-off between dividend pay. Munyua (2012) conducted a research on effect of regular dividend policy on stock prices for firms listed at the Nairobi securities exchange. Findings revealed that there was a strong positive relationship between dividends per share and share price. Ogolo (2012) investigated the effect of regular dividend policy on share price on 61 firms listed in Nairobi Stock Exchange. It was established that there was a positive significant relationship between market price per share and earnings per share and dividend pay-out ratio. It was concluded that regular dividend policy has a significant effect on the share price. However, the effect is not significant for local firms.
Galgallo (2016) investigated the effect of earnings and dividends on share prices of firms listed at the Nairobi Securities Exchange. Findings revealed that earnings and dividends affect the value of shares of a firm in the long run and that the association is significant and constructive. It was recommended that investors’ who invest in stocks for short term or long term purposes need to take into account EPS and DPS ratios when investing in shares. This is because a higher EPS and DPS ratios leads to a higher share price. Hussain, Mgbame and Chijoke (2011) conducted a research on dividend policy and share price volatility. A sample of United Kingdom listed companies were also used to measure and determine the effects of regular dividend policy on the company’s share price by using dividend yield and the dividend pay-out ratio. Regression analysis was used to test the relationship between dividend pay-out and price volatility which depicted a negative significant effect on the share price. Findings revealed that there was a positive correlation between a company’s share price and its dividend yield. Additionally, it was also revealed that company’s earnings, rate of growth as well as its debt levels are determinants for the changes in the share price.

Zakaria, Muhammad and Zulkifli (2012) posit that organizations that have positive growth opportunities in most cases debt has a negative influence on a company’s valuation. In cases where there is high debt, the management team are disciplined on the investment opportunity they can undertake which sees shareholders being given dividends at the year end. Additionally, the dividends paid out have a positive effect on the company’s valuation creating a relationship between the company’s regular dividend policy and its valuation. He attributed the increase in the value of a company to the decrease in the amount of investments made by the company, a consistent debt ratio and also increased dividends. This was termed as underinvestment described by managers selecting few secure investments and distributing the rest of the funds to the company’s shareholders as dividends (Zakaria et al, 2012).

Tuigong (2016) conducted a research on effects of regular dividend policy on share price of firm’s listed at the Nairobi Securities Exchange, Kenya. It was revealed that regular dividend policy affects the share price and that increase in cash dividend would result in increase in share price for companies listed at the Nairobi Securities Exchange. The study recommend that management of listed firms should consider adoption of cash dividend policy more than share dividend as a strategy aimed at increasing the value of the firms due to its positive effect on the share price.
2.2.1 Impact of Dividend Announcement on Share Price

The announcement of dividends by a firm has short term effect on its share price (Muriuki, 2010). Mohammed, (2010) stated that the effect of dividend per share (DPS) on firm value is stronger than that of retained earnings per share (REPS) when DPS and REPS are the only two explanatory variables. Golden (2015) conducted a research on the effect of dividend announcement on share prices: A study on the Ghana Stock Exchange. It was established that dividends carry negative information to the market and company size influences the effect and the speed with which the market reacts to dividend announcements on the Ghana Stock Exchange.

Ndungu (2016) pointed out that the reaction of share price to the announcement of dividends depends on whether the securities being traded are bearish or bullish in nature. Securities are said to be bullish if the share prices are consistently having an upward trend while they are said to be bearish if they are always on a decline. This therefore means that dividend announcements in a bullish market will see the share price of various securities increasing and vice versa for the bearish markets. This consistency is also brought about by investors within the same market who in most cases have the same behaviour or reactions to information from company managers. Based on his research on numerous listed companies within the Nairobi Stock Exchange, it was concluded that the regular dividend policy adopted in an organization is relevant to the company’s share value.

Hashemijoo, Ardekan and Younesi, (2012) conducted a study on the impact of regular dividend policy on the share price in the Malaysian market. A sample of 84 consumer companies were selected in the main market of Bursa with regular dividend policy being measured using dividend pay-out and dividend yield. Data was collected within five yrs. 2005 to 2010. Findings revealed that there was a strong relationship existed between the dividend pay-out and price volatility especially during the announcements of dividends being paid out. Mukora (2014) investigated the effect of dividend announcement on stock returns of firm’s listed at the Nairobi Securities Exchange. It was revealed that dividend announcement had a positive effect on stock returns for firms listed at the Nairobi Securities Exchange. The study recommended that more firms should consider distributing dividends since there is a positive effect on the stock return.

Mbaka (2010) did an empirical study on the applicability of dividend signalling theory at the NSE from 2003 to 2007 and established that dividend announcements by companies
can cause some reaction in market prices and returns depending on the information contained in the announcement. It was established that dividend announcements had a positive effect for companies with increasing dividends while it had a negative reaction for companies with decreasing dividends. Companies with no change in dividends were found to have mixed reactions towards dividend announcements.

Khan (2012) conducted a research on the effects of dividend announcements on stock prices of chemical and pharmaceutical industry in Pakistan. The study used panel data to explain the relationship between dividends and stock prices after controlling the variables like earnings per share, retention ratio and return on equity. The study indicates that cash dividend; retention ratio and return on equity had a significant positive relation with stock market prices and significantly explains the variations in the stock prices of chemical and pharmaceutical sector in Pakistan while earnings per share and stock dividends had a negative insignificant relation with stock prices.

Muhammad and Syed (2011) conducted a study on different sectors in Pakistan. Analysing 26 dividend announcements from 2004-2008. It was revealed that share prices were found to react positively to dividend announcements on the announcement day as well as immediately after such announcements. Asamoah (2012) investigated the impact of dividend announcement on share price behaviour in Ghana. This was carried out by analysing three listed companies within the Ghana Stock Exchange. The main assumption of the study was that the Ghana Stock Exchange adhered to the efficient market hypothesis also that the share price changed in relation to the amount of information that was availed to shareholders. Statistical measures including the Wilcoxon were applied to test the null hypothesis of whether the share price did not respond immediately to the information that was publicly declared. The study found that there was a positive correlation between the share price and the announcement of the dividends for the three companies. Asamoah (2012) also emphasizes that it is imperative to study the impact of the announcements of dividends to the share price of a company.

### 2.2.2 Relationship between Divided Pay-out Ratio and Share Price

Fumey and Doku (2013) asserts that dividend pay-out is the proportion of total profit paid out to ordinary shareholders as dividends. Anil and Kapoor (2008) states that dividend pay-out ratio of a firm indicates the percentage of each shilling earned that is distributed to the owners in form of cash. Furthermore, dividend pay-out ratio determines what
proportion of earnings is distributed to shareholders in terms of dividends and what proportion is used for reinvestment. According to Gugler (2003), dividend pay-out ratio is the percentage of a company's annual earnings paid out as dividends. It is a percentage of dividends per shares to earnings per share, and it varies with industry, market conditions and tax law.

Al-Najjar and Hussainey (2009) posit that firm’s use different rates when paying out dividends. Constant pay-out ratio is when a firm pays a fixed dividend rate, which fluctuates as the earnings per share changes. Constant amount per share pay-out ratio is where dividend per share is fixed, irrespective of the earnings levels. This creates certainty and is preferred by shareholders who have a high reliance on dividend income (Gitman, 2011). Mulwa (2014) researched on the relationship between dividend pay-out ratio and the value of the firm for companies listed at the Nairobi Securities Exchange. Findings revealed that there was a significant relationship between dividend pay-out ratio and value of firm’s listed at NSE. The study recommends that firms should pay dividends to maintain a high firm value. Management should also consider other factors such as liquidity, growth opportunities, and current ratio. It was established that there was a positive significant relationship between dividend pay-out ratios and value of shares of a firm.

Gitere (2014) conducted a research on the relationship between dividend pay-out ratio and value of shares of firms listed at the Nairobi Securities Exchange. The study was carried out to determine the relationship between dividend pay-out ratios and share prices for firms listed at the NSE for the period of five years, between 2009 and 2013. Multivariate regression analytical model was used. Findings revealed that the lag of dividend pay-out had a significant relationship with the share value. Further the findings showed that both total assets and growth in earnings have an insignificant relationship with share price.

Nyagaka (2012) conducted a research on the relationship between dividend pay-out ratio and market values of firms listed at the Nairobi Securities Exchange. The target population was all companies quoted at the NSE with regular dividend pay-out behaviour, for the 8 years i.e. 2004 to 2011. Correlation study was used. The study sampled 30 firms listed consistently at NSE including those listed within the years and regularly paid dividends to their shareholders. Secondary data was extracted from published financial
statements as published in the NSE in 2008 and 2012. It was established that there was a weak relationship between dividend pay-out ratio and market value.

2.3 Effects of Regular Dividend Policy on Firm’s Leverage

Financial leverage is a combination of debt, equity or internal funds that a firm chooses to run its operations. In addition, business risk, tax exposure, market conditions, the firm’s growth rate and the cost of capital are factors organizations use to decide whether to debt, equity or a combination of both (Huang and Song, 2006). Benito and Young (2001) higher leverage is closely related with dividend reduction and omission. Moreover, an increase in financial leverage may bring better returns to some existing shareholders but its risk also increases as it causes financial distress and agency costs.

Kimutai (2012) conducted a research on the effect of liquidity on dividend pay-out by companies listed at the Nairobi Securities Exchange. It was revealed that there was a positive effect between leverage and dividend pay-out. Odowo (2015) conducted a research on determinants of dividend pay-out policy in public Ltd banks in Kenya. Findings revealed that leverage had a positive and significant relationship with the dividend pay-out. Mworia (2016) conducted a research on the relationship between financial leverage and dividend pay-out ratio of firm’s listed at the Nairobi Securities Exchange. Findings revealed that there was a negative significant relationship between financial leverage and dividend pay-out ratio.

Al Shabibi and Ramesh (2011) conducted a research on an empirical study on the determinants of regular dividend policy in the UK. It was established revealed that there was no significant relationship between leverage and the company’s dividend pay-outs. Aasia, Waqas and Yasir (2011) investigated the impact of financial leverage on regular dividend policy in Karachi Stock Exchange-listed companies. It was revealed that financial leverage had a negative impact on dividend pay-out. In contrary, according to a study done by Al-Kuwari (2009) on determinants of regular dividend policy in emerging stock exchanges in GCC countries. Findings revealed that there was a strong negative correlation between leverage and the dividend pay-out ratio.

Aasia et al, (2011) states that leverage also influences the dividend behaviour of companies provided the level of the leverage is high, which means that investment in the
firm is comparatively riskier in the manners of cash flow. Companies who have a past of higher leverage normally pay lower dividend to avoid the higher cost of raising external capital for the company. Financial leverage refers to the extent to which an investor utilizes the money that has been borrowed for the business, indicating the existence of debt in its capital structure. Financial leverage can increase the return on investment for the shareholder and also provides tax benefits associated with borrowing. Furthermore, leverage can also increase the risk quotient of the business as a results paying out less dividends to its investors and retaining a higher portion of the profit hence investing in projects that would decrease company’s debts (Ruchi & Manisha, 2017).

Imbalo (2013) researched on the effect of financial leverage and revenue growth on regular dividend policy of firms listed at Nairobi Securities Exchange. Findings revealed that there exists a negative relationship between financial leverage, revenue growth and dividend pay-out. It was recommended that firms should pay dividend to attract investors. Furthermore, firm’s are able to control consumption of perks and underinvestment by managers. Firms should also consider macro-economic factors before declaring dividend in order to align firms’ goals in terms of investment, growth and dividend.

2.3.1 Relationship between Regular Dividend Policy and Debt to Equity Ratio

Capital structure is the ratio of debt and equity financing. In addition, capital structure is also regarded as an important factor that is used to determine the performance of a firm. A company faces bankruptcy risk when it has more debt financing but there are also some tax and monitoring benefits associated with debt financing (Su and Vo, 2010). Moreover, it also mitigates agency conflict by reducing the free cash flow of the firm. Firms should have an appropriate capital structure that generates the maximum profit for the firm and also less equity financing increases the control of the owners to a large extent (Abu-Rub, 2012). Capital structure plays a vital role in performance, value, risk, cost and other sectors of the business (Ammara & Bilal, 2016)

Capital structure comprise of debt, equity or hybrid securities issued by the firm (Brealey & Myers, 2005). Frank and Goyal, (2004) based on research findings suggest that there is a significant relationship between dividend pay-out policy and capital structure. However, there is a conflict as to whether there is a direct or indirect relationship. Sang (2012) researched on the relationship between dividend pay-out ratio and capital structure of
companies listed at the Nairobi Securities Exchange. Findings revealed that there was a significant relationship between dividend pay-out ratio and capital structure. Anup and Suman (2010) argued that maximizing the value of firm requires an optimal level of debt and equity, whilst firm’s worth has a negative relation with weighted average cost of capital therefore weighted average cost of capital should be minimum as possible. Additionally, firm’s market worth can be boost up by achieving the optimal capital structure combination.

Luvenbe, Mungai, Njangiru and Simiyu (2014) conducted a research on effect of dividend pay-out on market value of listed banks in Kenya. Findings revealed that there was a significant and positive relationship between market value and capital structure, corporate earnings, dividend pay-out ratio. The study recommends that commercials banks should consider their profitability, pattern of past dividends, investment opportunities, and capital ownership structure, shareholder’s expectations, tax position of shareholders and access to capital markets in designing a regular dividend policy. Additionally, banks should consider the financial needs of the firm’s when designing the dividend pay-out policy. Sang, Shisia, Gesimba and Kilonzo (2015) conducted a research on the relationship between the dividend pay-out ratio and the capital structure of listed companies at Nairobi Securities Exchange, Kenya in the Industrial and Allied Sector. Finding revealed that there was a strong inverse relationship between leverage and dividend pay-out ratio while there was a weak inverse relationship between retained earnings and dividend pay-out ratio.

Ammara and Bilal (2016) conducted a research on impact of capital structure on firm value creation-evidence from the cement sector of Pakistan. Findings revealed that capital structure has positive impact on firm value. Berk (2006) researched on determinants of leverage in Slovenian blue-chip firms and stock performance following substantial debt increases. Findings revealed that debt ratio (DR) and debt to equity ratio (DER) were negatively correlated with ROE. In addition, the study also found no significant relationship between debt to equity ratio ROE. It was concluded that capital structure does not have an effect on the value of the firm as well as on profitability.

2.3.2 Effects of Regular Dividend Policy on a Firm Debt to Asset Ratio

Manjunatha (2013) investigated the impact of debt-equity and dividend pay-out ratio on the value of the firm. Descriptive research was conducted. Convenient sample was used
to select of 29 and shares of which are traded in Bombay Stock Exchange and National Stock Exchange. It was revealed that debt-equity (capital structure) do not affect the return on equity. According to study done by Andiema and Atieno (2016) on dividend policies on capital structure and shareholders’ value in commercial banks listed in the Nairobi Securities Exchange, Kenya. The study used cross sectional research design. Purposive sampling was also used to select 32 management and investment department staff members from 11 banks listed in the NSE. Primary data was collected using questionnaires. SPSS version 21.0 was used to analyse data. Findings revealed that dividend policies on capital structure decisions significantly affected the shareholders’ value in banks listed by the NSE.

According to Aivazian and Booth (2003), firms with relatively less debt in total capital are more likely to pay dividends this is because, they have greater financial slack and are able to maintain their dividends. Mahakud (2005) researched on the impact of shareholding pattern on dividend pay-out ratio of Indian companies listed in Bombay Stock Exchange (BSE) during 2001-2004. The study revealed that lagged earnings, sales and size of the company are positively associated, whereas, debt-to-equity ratio and institutional shareholding pattern are negatively associated with the dividend payment decision. Deitiana (2013) posit that debt to equity ratio (DER) can have an effect on net profit margin and dividend policy. Debt to equity ratio (DER) is the ability of a company to pay debts from its own capital (equity). In addition, a company that has high level of debt to equity ratio are able to pay their expenses, increase net profit margin (NPM) and also affect dividend policy.

Gresylia and Bambang (2015) examined the effects of current ratio and debt to equity ratio on dividend policy through net profit margin on Manufacturing Companies Listed in Indonesia Stock Exchange in the Period of 2013. Total population was 134 manufacturing companies listed in BEI in the period of 2013. The study used purposive sampling to select a sample of 39 companies. It was established that debt to equity ratio has significant positive effect on dividend policy (β= 0.490, p<0.010). Muhammad and Aris (2012) researched on the influence of fundamental factor consisting of current ratio (CR), debt to equity ratio (DER), earning per share (EPS,) and return on assets (ROA) to the dividend pay-out ratio (DPR) for companies included in Daftar Efek Syariah (DES) from 2008-2010 simultaneously and partially. Total population was 286 companies listed in Daftar Efek Syariah period 2008-2010. Purposive sampling was used to select a sample of
44 companies. Secondary data was collected from 2011 annual report. The study conducted multiple linear regression analysis to determined relationship between variables. It was revealed that debt to equity ratio has no influence Dividend Pay-out Ratio DPR.

Wahdaniah (2013) asserted that debt to equity ratio DER has a significant effect on profitability. Andri and Jnv (2017) researched on return on equity, current ratio, debt equity ratio, asset growth. The purpose of the study was to determine and analyse the influence of return on equity, current ratio, debt equity ratio, asset growth, inflation, and interest rates on dividend pay-out ratio in banking companies listed in Indonesia Stock Exchange (BEI) 2009-2014, the data. Secondary data was obtained from the IDX website. Total population was 36 companies. The study sampled 11 companies. It was revealed that debt equity ratio, significantly influence dividend pay-out ratio. Soondur, Maunick and Sewak (2016) researched on determinants of the dividend policy of companies listed on the stock exchange of Mauritius. The study sampled 30 companies which were selected and listed in the stock exchange of Mauritius. Companies’ annual reports for the period 2009-2013 were used. Findings revealed that there was a significant negative relationship between dividend policy and retained earnings and debt to equity ratio does not have any effect on dividend policy.

2.4 Effects of Regular Dividend Policy on Firm’s Liquidity

Liu and Hu (2005) states that if cash dividend is less than free cash flow, it means that the firm has residual cash and if cash dividend is more than free cash flow then it means that the firm needs financing to meet the requirement of cash dividends. According to Pandey (2005), the availability of cash and sound financial position is also an important factor in dividend decisions. Dividend represents a cash outflow, the greater the funds and the liquidity of the firm the better the ability to pay dividend. Liquidity of a firm depends very much on the investment and financial decisions of the firm which in turn determines the rate of expansion and the manner of financing. If cash position is weak, stock dividend will be distributed and if cash position is good, company can distribute the cash dividend (Pandey, 2015).
Ibrahim (2015) defined liquidity dividends as funds that can be used to pay the company’s shareholders within the short term. This means that investors with current or future needs related to liquidity will prefer shares that pay dividends. Shares that lead to higher liquidity levels were evidenced to trade within a premium leading to lower returns while compare to shares that had lower liquidity levels. Additionally, organizations can pay out cash dividends to reduce the dependence investors have on the market liquidity leading to higher valuations of the company.

Olang, Akenga and Mwangi (2015) conducted a research on effect of liquidity on the dividend pay-out by firm’s listed at the Nairobi Securities Exchange, Kenya. Finding revealed that profitability plays a major role in dividend pay-out because of the higher coefficient as compared to cash flows and working capital and consequently companies which posted higher profits translated this to higher dividends paid out to investors. The study recommends that firms should ensure that profits are stable, cash flows freely flow into the firm and working capital is efficiently managed so as to increase the firms’ dividend pay-out. Kimutai (2012) conducted a research on the effect of liquidity on dividend pay-out by companies listed at the Nairobi Securities Exchange. Finings revealed that that there was a significant positive effect between liquidity and dividend pay-out. However, profitability, corporate tax, sales growth, industry and earnings per share had a negative effect.

Westerfield, Ross, Trayler, Bird and Jordan (2011) state that young and unprofitable firms pay low dividends because of low liquidity. This is because much of its earnings is taken for investment purposes, but as the firms matures, it begins to generate cash flows that are needed to fund profitable investments and this surplus must be distributed as dividends to shareholders since it may cause agency problems. Odawo (2015) conducted a research on determinants of dividend pay-out policy in public Ltd banks in Kenya. Findings revealed that leverage liquidity was negatively and significantly related to dividend pay-out. It was recommended that companies should maintain an optimal level of market liquidity as market liquidity has a negative influence on dividend pay-out.

Norhayati, Wee, Normah, Rashida, Nor’azam, Maz and Szelina, (2010) conducted a research on empirical analysis of determinants of dividend payment: profitability and liquidity. Findings revealed that in Malaysian Share market firms paid out on average, about 40% of their earnings as dividends. It was further revealed that there was a strong
relationship between liquidity and dividend payment. However, according to a research done by Mehta (2012), on determinants of regular dividend policy—evidence from the UAE Companies. Findings revealed that liquidity does not have effects on dividend pay-out. Additionally, a study done Gill, Biger and Tibrewala (2010) on determinants of dividend pay-out ratios also revealed that there was a negative relationship between liquidity and pay-out ratio.

2.4.1 Correlation between Regular Dividend Policy and Cash Ratio

Teguh (2015) researched on cash ratio, return on assets, debt to equity ratio and dividend pay-out ratio of 25 Companies Listed in BEI Period 2005-2014. Purposive sampling was used to select 25 companies. It was revealed that cash ratio, return on assets, debt to equity ratio, earnings per-share have a significant negative effect using dividend pay-out ratio. Petrus and Agus, (2015) conducted a study on analysis of cash position, debt to equity ratio, return on assets, growth potential, and total assets turn over effect to dividend pay-out ratio on companies listed at Indonesia Stock Exchange. The study used 110 companies listed at Indonesia Stock Exchange for period 2009-2011. Purposive sampling method was also used to sample respondents. Findings revealed that cash position does not influence dividend pay-out ratio and debt to equity ratio, return on assets, growth potential, and total assets turnover have significant influence to dividend pay-out ratio.

Samino (2014) conducted a research on effect of cash ratio, debt to equity ratio, and return on asset to dividend pay-out ratio on registered Mining Company in Indonesia Stock Exchange. The study focused on mining companies that are registered at Indonesian Stock Exchange (IDX) for a period of five years 2009-2013. Purposive sampling was used to select a sample of 13 companies. Hypothesis was tested using multiple regression. Findings revealed that cash ratio had a positive significant effect on dividend pay-out ratio, debt to equity ratio and return on asset has a negative and significant effect to dividend pay-out ratio. Arief (2012) conducted a research on effect cash ratio, debt to total assets ratio, debt equity ratio, return on assets, and net profit margin on dividend pay-out ratio on automotive companies listed on Stock Indonesia Securities Period 2007-2011. The study targeted 12 companies listed on the Stock Exchange. Purposive sampling was used to select a sample of 10 companies. Multiple
regression was used to determine relationship between variables. Findings revealed that CR, DAR, DER does not have a significant effect on dividend profit ratio (DPR), CR (cash ratio) and ROA have a positive effect on DAR and a negative effect on debt to equity ratio (DER) negatively net profit margin (NPM) have a positive and significant impact on the DPR. However, findings also revealed that jointly CR, DAR, DER, ROA, and NPM had a significant influence on DPR. Andriyani (2008) researched on analysis of effect of cash ratio, debt to equity ratio, insider ownership, Investment Opportunity Set (IOS), and profitability of dividends policy. The study focused on automotive companies listed in Indonesia Stock Exchange in the period 2004-2006. Findings revealed that the cash ratio, debt to equity ratio, investment opportunity set, and return on assets have a partial significant effect on the dividend pay-out ratio, while insider ownership has no significant effect on the dividend pay-out ratio.

2.4.2 Relationship between Regular Dividend Policy and Current Ratio of a Firm

Current ratio is a ratio of current asset to current liabilities. Current ratio is known as working capital ratio and is calculated by dividing total current assets by total current liabilities (Weiner, 2006). Current asset is an asset on the statement of financial position which can either be converted to cash or used to pay current liabilities within 12 months. Current ratio is also used as an indicator of a company’s liquidity and ability to meet short term obligations. Current ratio of more than 2:1 means that a business has more current assets than current liabilities thus able to meet its short term obligations. A ratio of less than 2:1 indicates that the business is holding more current liabilities than current assets (Olang, 2015).

Mulwa (2014) investigated the relationship between regular dividend pay-out ratio and the value of the firm for companies listed at the Nairobi Securities Exchange. Target population was 61 firms listed at Nairobi Securities Exchange as at 2008-2013. The study used descriptive research. 29 listed at Nairobi Securities Exchange were sampled. Findings revealed that the combined effect of dividend pay-out ratio, current ratio, liquidity and growth opportunity was statistically significant in explaining changes in value of the firm of listed companies in Kenya. Gresylia and Bambang (2015) examined the effects of current ratio and debt to equity ratio on dividend policy through net profit margin on Manufacturing Companies Listed in Indonesia Stock Exchange in the Period of 2013. Total population was 134 manufacturing companies listed in BEI in the period of
2013. A sample of 39 companies was selected using purposive sampling technique. It was established that current ratio has no effect on either dividend policy; debt to equity ratio or net profit margin.

Muhammad and Aris (2012) researched on the influence of fundamental factor consisting of current ratio (CR), debt to equity ratio (DER), earning per share (EPS) and return on assets (ROA) to the dividend pay-out ratio (DPR) for companies included Daftar Efek Syariah (DES) period 2008-2010 simultaneously and partially. Total population was 286 companies listed in Daftar Efek Syariah period 2008-2010. Purposive sampling was used to select a sample of 44 companies. Secondary data was collected from 2011 annual report. Multiple linear regression analysis was done to test for hypothesis. Findings revealed that current ratio CR, EPS, and ROA partially influence Dividend Pay-out Ratio (DPR). Andri and Jmv (2017) researched on return on equity, current ratio, debt equity ratio, asset growth. The purpose of the study was to determine and analyse the influence of return on equity, current ratio, debt equity ratio, asset growth, inflation, and interest rates on dividend pay-out ratio in banking companies listed in Indonesia Stock Exchange (BEI) 2009-2014, the data. Secondary data was obtained from the IDX website. Total population was 36 companies. Findings revealed that current ratio affects dividend pay-out ratio.

2.5 Chapter Summary

This chapter has presented literature review based on three research objectives. To determine the effects of regular dividend practice on a firm’s share price, to examine the effects of regular dividend practice on firm’s leverage and to determine the effects of regular dividend practice on firm’s liquidity. Chapter three discussed research methodology that was used in the study.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction
This chapter covered research methods that were used to collect the data. The chapter also discussed research design, population and sampling design, data collection methods, data analysis methods and chapter summary as the last bit of the proportion.

3.2 Research Design
The study has adopted a descriptive research design. According to Saunders, Lewis and Thornhill (2016), research design is a framework used to collect and analyse data and to answer research question and meet research objectives. According to Kitur (2015), descriptive research design collects data in order to answer questions concerning the current status of the subject under study. It also helps a researcher investigate variables without manipulating them, and report various aspects that define competency (Patton, 2000).

Descriptive research is appropriate for this study because the main interest is to establish the effects of dividend policy on firm’s financial performance. Qualitative research was used to gain a better knowledge and in-depth understanding of the results. According to Cooper and Schindler (2014) descriptive studies is used by researchers to discover associations among different variables. Quantitative research was used. Sekaran and Bougie (2010), quantitative research relies on deductive reasoning or deduction. Independent variable was dividend policy and that dependent variable is financial performance.
3.3 Population and Sampling Design

3.3.1 Population
According to Mugenda and Mugenda, (2003) a population is a complete set of individuals, cases or objects with some common observable characteristics. Population is the total collection of individuals whom researchers seek to make inference on (Cooper and Schindler, 2013). The target population was 118 managers of Serena Hotels in Kenya. It will consist of employees who work at; Mombasa Serena Beach Hotel, Nairobi Serena Hotel, Mara Serena Lodge, Serena Head Office (Corporate), Lake Elementaita Serena Lodge, Sweetwaters Serena Lodge, Mountain Lodge Serena Lodge and Kilaguni Serena Lodge.

3.3.2 Sampling Design

3.3.2.1 Sampling Frame
According to Kothari (2012), a sample frame is a physical representation of the target population it also comprises of all units that are potential members of a sample. A sample size is also defined as a record of all sample units available for selection at a given stage in the sampling process (Ngechu, 2004). The sample frame of this study was managers at Serena Hotels in Kenya.

3.3.2.2 Sampling Technique
Stratified random sampling was used to select a sample that represented the whole population. Saunders et al, (2016) sampling technique is the specific process used to select study participants or respondents. According to Kothari (2012), stratified random sample is an appropriate technique to use for a population that is not homogeneous. The study also used simple random sampling that was used to select the sample size.

3.3.2.3 Sample Size
According to Kothari (2012), sample size choice can be pegged to reliability factors such as the cost and efficiency especially when dealing with a large population or a long term research. This research determined an appropriate and accurate sample size using the sampling formula \( n = \frac{N}{1 + Ne^2} \) developed by Yamane (1967) whereby;

\[
\begin{align*}
\text{n} & = \text{the sample size} \\
N & = \text{the size of population} \\
\epsilon & = \text{Margin of error}
\end{align*}
\]
At 95% confidence level with ± 10% precision:
Therefore, the sample size for this study will be;
\[ n = \frac{N}{1+N} \cdot e^2 \]
\[ n = \frac{118}{1 + 118 (0.1)^2} \]
\[ n = 54 \]

### Table 3.1: Sample Size Distribution

<table>
<thead>
<tr>
<th>Unit of Analysis</th>
<th>Population</th>
<th>Sample Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mombasa Serena Beach Hotel</td>
<td>19</td>
<td>9</td>
</tr>
<tr>
<td>Nairobi Serena Hotel</td>
<td>27</td>
<td>12</td>
</tr>
<tr>
<td>Mara Serena Lodge</td>
<td>11</td>
<td>5</td>
</tr>
<tr>
<td>Serena Head Office (Corporate)</td>
<td>32</td>
<td>15</td>
</tr>
<tr>
<td>Lake Elementaita Serena Lodge</td>
<td>8</td>
<td>4</td>
</tr>
<tr>
<td>Sweetwaters Serena Lodge</td>
<td>7</td>
<td>3</td>
</tr>
<tr>
<td>Mountain Lodge Serena Lodge</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Kilaguni Serena Lodge</td>
<td>9</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>118</strong></td>
<td><strong>54</strong></td>
</tr>
</tbody>
</table>

3.4 Data collection Methodology

Burns and Grove (2009) states that data collection is the systematic gathering of information relevant to research sub-problems. A researcher can use methods such as interviews, participant observation, focus group discussion, narratives and case histories. Primary data was used to collect data. Primary data is information a researcher gathers from the field (Kothari, 2008). The study used structured questionnaire to collect primary data. Questionnaire was subdivided into the following sub sections; the first section has questions on demography, the second section has questions on effects of regular dividend practice on a firm’s share price, third section covers effects of regular dividend practice
on firm’s leverage and the fourth section has questions on effects of regular dividend practice on firm’s liquidity. A five point Likert scale was used where 1= strongly disagree and 5 strongly agree.

3.5 Research Procedures

A pilot study was done to determine reliability of the questionnaire. Findings received from the pilot study were incorporated in the questionnaire. According to Robson, (2007) pilot studies are important in recognizing ambiguity, evaluating the kind of answers given hence, determine whether they help the researcher to achieve the research objectives. Questionnaires were delivered to the respondents and collected immediately the research is done. Respondents were given ample time to answer the questionnaire. In addition, respondents were assured that information was confidential and was only used for academic purpose. Sekaran and Bougie, (2013) reliability is the degree in which results gotten from a survey is consistent. Additionally, reliability is also influenced by the degree of error (Creswell, 2013). Mugenda and Mugenda (2003) states that as random error increases, reliability decreases.

3.6 Data Analysis Methods

Data processing the process of transmitting answers on a questionnaire into a form that a researcher can manipulate to get figures and results (Hyndman, 2008). The study analysed data using descriptive statistics. Pearson correlation and regression analysis was also used to determine relationship between independent and dependent variables. Data was coded according to different variables of the study. Coded data was then analysed using Statistical Package for Social Sciences (SPSS) software. Results were presented and interpreted using frequencies, mode, mean percentiles, variances and standard deviations. Tables, figures and chart were used to analyse and interpret data.

3.7 Chapter Summary

Chapter three has discussed research methodology used in the study. A detailed description of research design, population, and sampling design, data collection methods, research procedures and data analysis was given. Chapter four covered data analysis and presentation of the findings.
CHAPTER FOUR

4.0 DATA ANALYSIS AND INTERPRETATION

4.1 Introduction
This chapter discusses results established from the study. The chapter has also discussed demographic information such as; gender, age, level of education, years in the organization, existence of the organization and management position. This chapter also examined results based on specific research objectives.

4.1.1 Response Rate
A total of 54 questionnaires were issued to respondents but only 40 were filled and returned giving a response rate of 74% as shown in table 4.1.

Table 4.1: Response Rate

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Filled and returned</td>
<td>40</td>
<td>74</td>
</tr>
<tr>
<td>Non-response</td>
<td>14</td>
<td>26</td>
</tr>
<tr>
<td>Total</td>
<td>54</td>
<td>100</td>
</tr>
</tbody>
</table>
4.2 Demographic Information

This section provides findings on various demographic factors on respondents who participated in the research.

4.2.1 Gender

To analyse gender of the respondent’s findings revealed that 52% of respondents are male and 48% are female as shown in Figure 4.1.

![Gender Pie Chart]

**Figure 4.1: Gender**

4.2.2 Age

To analyse age of the respondents, findings revealed that 14 respondents were 50 years and above representing 35% of the respondents, 12 respondents were less than 30 years representing 30% of the respondents, 7 respondents were between 40-49 years representing 17% of the respondents and 7 respondents were between 30-39 years representing 18% of the respondents as shown in Figure 4.2.
Figure 4.2: Age

4.2.3 Level of Education

To analyse respondents level of education findings revealed that 20 respondents have a graduate degree representing 50% of the respondents, 12 have a PHD representing 30% of the respondent, 6 have a diploma representing 15% of the respondent and 2 have a masters representing 5% of the respondent as shown in Figure 4.3.

Figure 4.3: Level of Education

4.2.4 Years in the Organization

To analyse years respondents have worked in the organization, findings revealed that 30% of respondents have been in the organization for 1-5 years, another 30% have been
in the organization for 6-10 years, 25% have been in the organization for over 10 years and 6% for less than 1 year as shown in Figure 4.4.

**Figure 4.4: Years in the Organization**

**4.2.5 Existence of the Organization**

To analyse how long, the organization has existed. Findings revealed that 55% of the respondent agreed that the organization has existed 1-5 years, 28% of respondents have agreed that the organization has existed for 6-10 years, 18% agreed that the organization has existed for over 10 years, and another 18% of respondents agreed that the organization had existed for less than one year as shown in Figure 4.5.

**Figure 4.5: Existence of the Organization**

**4.2.6 Management Position**
To analyse management position respondents, hold findings revealed that 22 respondents are in the management level this represents 55% of the population, 11 respondents are in other position this represents 28% of the population and 7 respondents are in top [ level management hence representing 18% of the population as shown in Figure 4.6.

Figure 4.6: Management Position

4.3 Effects of Regular Dividend Policy on Firm’s Share Price

The first objective set to establish effects of regular dividend policy on firm’s share price. Respondents were asked to indicate the degree to which they agreed with the statement related to dividend policy and firm share price. Using a five point Likert scale where 1 - Strongly Disagree 2 - Disagree 3 - Neutral 4 - Agree 5 - Strongly Agree

4.3.1 Effects of Earnings per Share on Dividend per Share

On analysing if higher earnings per share and dividend per share affected share price and financial performance findings revealed that 45% strongly agreed, 30% agreed, 8% were neutral, 15% disagreed and 3% strongly disagreed as shown in Table 4.2.

Table 4.2: Earnings per Share and Dividend per Share

<table>
<thead>
<tr>
<th>Variable</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>18</td>
</tr>
<tr>
<td>Agree</td>
<td>12</td>
</tr>
<tr>
<td>Neutral</td>
<td>3</td>
</tr>
</tbody>
</table>
4.3.2 Effects of Dividend Payment on Stock Price

On analysing if increase dividend payment has increased stock price leading to better financial performance findings revealed that 45% strongly agreed, 25% agreed, 15% were neutral, 10% disagreed, 3% strongly disagreed and 3% never answered as shown in Table 4.3.

Table 4.3: Effects of Dividend Payment on Stock Price

<table>
<thead>
<tr>
<th>Variable</th>
<th>Distribution</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
<td>Percentage</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>18</td>
<td>45</td>
</tr>
<tr>
<td>Agree</td>
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<td>25</td>
</tr>
<tr>
<td>Neutral</td>
<td>6</td>
<td>15</td>
</tr>
<tr>
<td>Disagree</td>
<td>4</td>
<td>10</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Missing</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>40</td>
<td>100</td>
</tr>
</tbody>
</table>

4.3.3 Effects of Higher Share Price on Dividend Payment
On analysing if higher share price leads to increase in dividend payment resulting to better financial performance findings revealed that 38% strongly agreed, 28% agreed, 18% were neutral, 10% disagreed and 8% strongly disagreed as shown in Table 4.4.

**Table 4.4: Effects of Higher Share Price on Dividend Payment**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>15</td>
</tr>
<tr>
<td>Agree</td>
<td>11</td>
</tr>
<tr>
<td>Neutral</td>
<td>7</td>
</tr>
<tr>
<td>Disagree</td>
<td>4</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>40</td>
</tr>
</tbody>
</table>

4.3.4 Effects of Dividend Announcement on Investors

On analysing if favourable dividend announcement attracts investors hence leading to better financial performance findings revealed that 60% of respondents strongly agreed, 30% agreed, 3% were neutral, 3 % disagreed and 5% strongly disagreed as shown in Table 4.5.

**Table 4.5: Effects of Dividend Announcement on Investors**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>24</td>
</tr>
<tr>
<td>Agree</td>
<td>12</td>
</tr>
<tr>
<td>Neutral</td>
<td>1</td>
</tr>
<tr>
<td>Disagree</td>
<td>1</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>2</td>
</tr>
</tbody>
</table>
4.3.5 Effects of Cash Dividend on Share Price

On analysing if an increase in cash dividend has led to increase in share price hence, leading to better financial performance findings revealed that 48% of respondents strongly agreed, 38% agreed, 8% were neutral, 5% disagreed and 3% strongly disagreed as shown in Table 4.6.

Table 4.6: Effects of Cash Dividend on Share Price

<table>
<thead>
<tr>
<th>Variable</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>19</td>
</tr>
<tr>
<td>Agree</td>
<td>15</td>
</tr>
<tr>
<td>Neutral</td>
<td>3</td>
</tr>
<tr>
<td>Disagree</td>
<td>2</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>40</strong></td>
</tr>
</tbody>
</table>

4.4 Effects of Regular Dividend Policy on Firm’s Leverage

The first objective set to establish effects of effects of regular dividend policy on firm’s leverage. Respondents were asked to indicate the degree to which they agreed with the statement related to dividend policy and firm share price. Using a five point Likert scale where 1 - Strongly Disagree 2 - Disagree 3 - Neutral 4 - Agree 5 - Strongly Agree

4.4.1 Use of no Debt on Dividend Payment

On analysing if the use of no debt has increased dividend payment hence, leading to better financial performance findings revealed that 8% strongly agreed, 33% agreed, 43% were neutral, 4% disagreed and 3% strongly disagreed as shown in Table 4.7.

Table 4.7: Use of no Debt on Dividend Payment

<table>
<thead>
<tr>
<th>Variable</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>3</td>
</tr>
</tbody>
</table>
4.4.2 Effects of Increase in Financial leverage on Returns

On analysing if increase in financial leverage had led to better returns to existing shareholder thus, leading to better financial performance findings revealed that 15% strongly agreed, 45% agreed, 25% were neutral, 5% disagreed, 5% strongly disagreed and 5 % never responded as shown in Table 4.8.

Table 4.8: Effects of Increase in Financial leverage on Returns

<table>
<thead>
<tr>
<th>Variable</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>6</td>
</tr>
<tr>
<td>Agree</td>
<td>18</td>
</tr>
<tr>
<td>Neutral</td>
<td>10</td>
</tr>
<tr>
<td>Disagree</td>
<td>2</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>2</td>
</tr>
<tr>
<td>Missing</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>40</td>
</tr>
</tbody>
</table>

4.4.3 Effects of Less Debt in Total Capital on Dividend Pay
On analysing if use of relatively less debt in total capital has created room to pay dividends thus, leading to better financial performance findings revealed that 14% strongly agreed, 35% agreed, 35% were neutral, 18% disagreed and 5% never responded as shown in Table 4.9.

Table 4.9: Effects of Less Debt in Total Capital on Dividend Pay

<table>
<thead>
<tr>
<th>Variable</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>14</td>
</tr>
<tr>
<td>Agree</td>
<td>14</td>
</tr>
<tr>
<td>Neutral</td>
<td>7</td>
</tr>
<tr>
<td>Disagree</td>
<td>3</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>0</td>
</tr>
<tr>
<td>Missing</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>40</td>
</tr>
</tbody>
</table>

4.4.4 Effects of Leverage on Company’s Finance

On analysing if increase in leverage has increased company’s finance hence more funds to pay dividends leading to better financial performance findings revealed that findings revealed that 25% strongly agreed, 23% agreed, 33% were neutral, 8% disagreed, 8% strongly disagreed and 5% never responded as shown in Table 4.10.

Table 4.10: Effects of Leverage on Company’s Finance

<table>
<thead>
<tr>
<th>Variable</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>10</td>
</tr>
<tr>
<td>Agree</td>
<td>9</td>
</tr>
<tr>
<td>Neutral</td>
<td>13</td>
</tr>
</tbody>
</table>
4.4.5 Effects of Debt to Equity Ratio on Dividend Payment

On analysing if higher debt of equity ratio has increased dividend payment in the company hence, better performance findings revealed that findings revealed that 20% strongly agreed, 33% agreed, 15% were neutral, 13% disagreed, 15% strongly disagreed and 5% never responded as shown in Table 4.11.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>8</td>
</tr>
<tr>
<td>Agree</td>
<td>13</td>
</tr>
<tr>
<td>Neutral</td>
<td>6</td>
</tr>
<tr>
<td>Disagree</td>
<td>5</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>6</td>
</tr>
<tr>
<td>Missing</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>40</td>
</tr>
</tbody>
</table>

Table 4.11: Effects of Debt to Equity Ratio on Dividend Payment
4.5 Effects of Regular Dividend Policy on Firm’s Liquidity
The first objective set to establish effects of regular dividend policy on firm’s liquidity. Respondents were asked to indicate the degree to which they agreed with the statement related to dividend policy and firm share price. Using a five point Likert scale where 1 - Strongly Disagree 2 - Disagree 3 - Neutral 4 - Agree 5 - Strongly Agree

4.5.1 Effects of Regular Dividend Policy on Liquidity
On analysing if regular dividend policy has improved liquidity in the organization hence, leading to better financial performance findings revealed that 15% strongly agreed, 48% agreed, 28% were neutral, 5% disagreed and 3% strongly disagreed and 3% never responded as shown in Table 4.12.

Table 4.12: Effects of Regular Dividend Policy on Liquidity

<table>
<thead>
<tr>
<th>Variable</th>
<th>Distribution</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
<td>Percentage</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>6</td>
<td>15</td>
</tr>
<tr>
<td>Agree</td>
<td>19</td>
<td>48</td>
</tr>
<tr>
<td>Neutral</td>
<td>11</td>
<td>28</td>
</tr>
<tr>
<td>Disagree</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Missing</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>40</td>
<td>100</td>
</tr>
</tbody>
</table>
4.5.2 Effects of Good Cash Position on Distribution of Cash Dividend

On analysing if a good cash position influences the company to distribute cash dividend thus leading to better financial performance. Findings revealed that 32% strongly agreed, 55% agreed, 5% were neutral, 5% disagreed and 3% never answered as shown in Table 4.13.

Table 4.13: Effects of Good Cash Position on Distribution of Cash Dividend

<table>
<thead>
<tr>
<th>Variable</th>
<th>Distribution</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
<td>Percentage</td>
<td></td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>13</td>
<td>32</td>
<td></td>
</tr>
<tr>
<td>Agree</td>
<td>22</td>
<td>55</td>
<td></td>
</tr>
<tr>
<td>Neutral</td>
<td>2</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Disagree</td>
<td>2</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Missing</td>
<td>1</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>40</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

4.5.3 Effects of Dividend Pay on Financial Performance

On analysing if pay of higher dividends has led to better financial performance in the firm. Findings revealed that 13% strongly agreed, 17% agreed, 40% were neutral, 20% disagreed, 8% strongly disagreed and 3% never answered as shown in Table 4.14.

Table 4.14: Effects of Dividend Pay on Financial Performance

<table>
<thead>
<tr>
<th>Variable</th>
<th>Distribution</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
<td>Percentage</td>
<td></td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>5</td>
<td>13</td>
<td></td>
</tr>
<tr>
<td>Agree</td>
<td>7</td>
<td>17</td>
<td></td>
</tr>
</tbody>
</table>
Table 4.15: Effects of Distribution of Stock Dividends on Financial Performance

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>13</td>
<td>33</td>
</tr>
<tr>
<td>Agree</td>
<td>5</td>
<td>13</td>
</tr>
<tr>
<td>Neutral</td>
<td>11</td>
<td>27</td>
</tr>
<tr>
<td>Disagree</td>
<td>8</td>
<td>20</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Missing</td>
<td>1</td>
<td>3</td>
</tr>
</tbody>
</table>

4.5.4 Effects of Distribution of Stock Dividends on Financial Performance

On analysing if distribution of stock dividends in the organization has led to better financial performance. Findings revealed that 33% strongly agreed, 13% agreed, 27% were neutral, 20% disagreed, 5% strongly disagreed and 3% never answered as shown in 4.15.
4.5.5 Effects of Higher Liquidity on Financial Performance

On analysing if higher liquidity has to better financial performance. Findings revealed that 15% strongly agreed, 40% agreed, 28% were neutral, 13% disagreed, 3% strongly disagreed and 3% never answered as shown in Table 4.16.

Table 4.16: Effects of Higher Liquidity on Financial Performance

<table>
<thead>
<tr>
<th>Variable</th>
<th>Distribution</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
<td>Percentage</td>
</tr>
<tr>
<td>Strongly Agree</td>
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<td>15</td>
</tr>
<tr>
<td>Agree</td>
<td>16</td>
<td>40</td>
</tr>
<tr>
<td>Neutral</td>
<td>11</td>
<td>28</td>
</tr>
<tr>
<td>Disagree</td>
<td>5</td>
<td>13</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Missing</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>40</td>
<td>100</td>
</tr>
</tbody>
</table>

4.6. Dividend Policy

The first objective set to establish effects of dividend policy on firm’s financial performance. Respondents were asked to indicate the degree to which they agreed with the statement related to dividend policy and firm share price. Using a five point Likert scale where 1 - Strongly Disagree 2 - Disagree 3 - Neutral 4 - Agree 5 - Strongly Agree

4.6.1 Effects of Profits on Dividend Policy Adopted

On analysing if profits attained in this company determine the dividend policy adopted per financial year. Findings revealed that 38% strongly agreed, 55% agreed, and 8% were neutral, as shown in Table 4.17.

Table 4.17: Effects of Profits on Dividend Policy Adopted

<table>
<thead>
<tr>
<th>Variable</th>
<th>Distribution</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
<td>Percentage</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
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<td>38</td>
</tr>
<tr>
<td>----------------</td>
<td>----</td>
<td>----</td>
</tr>
<tr>
<td>Agree</td>
<td>22</td>
<td>55</td>
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<tr>
<td>Neutral</td>
<td>3</td>
<td>8</td>
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<tr>
<td>Disagree</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>40</td>
<td>100</td>
</tr>
</tbody>
</table>

4.6.2 Effects of Financial Leverage on Dividend Paid to Investors

On analysing if financial leverage of the company determines dividend paid to investors. Findings revealed that 84% strongly agreed, and 15% agreed, as shown in Table 4.18.

Table 4.18: Effects of Higher Liquidity on Financial Performance

<table>
<thead>
<tr>
<th>Variable</th>
<th>Distribution</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
<td>Percentage</td>
</tr>
<tr>
<td>Strongly Agree</td>
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<tr>
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<td>15</td>
</tr>
<tr>
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<td>0</td>
</tr>
<tr>
<td>Disagree</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>40</td>
<td>100</td>
</tr>
</tbody>
</table>

4.6.3 Effects of Dividend Paid Out on Liquidity

On analysing if dividend paid out to shareholders is subject to the liquidity status of the firm. It was revealed that 48% strongly agreed, 20% agreed, and 33% were neutral, as shown in Table 4.19.

Table 4.19: Effects of Higher Liquidity on Financial Performance

<table>
<thead>
<tr>
<th>Variable</th>
<th>Distribution</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
<td>Percentage</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>19</td>
<td>48</td>
</tr>
<tr>
<td>Agree</td>
<td>8</td>
<td>20</td>
</tr>
<tr>
<td>-------</td>
<td>---</td>
<td>----</td>
</tr>
<tr>
<td>Neutral</td>
<td>13</td>
<td>33</td>
</tr>
<tr>
<td>Disagree</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>40</td>
<td>100</td>
</tr>
</tbody>
</table>

### 4.7 Inferential Statistics

#### 4.7.2 Correlation

A Pearson correlation analysis was done to establish the relationship between dividend policy against share price, leverage and liquidity. Result revealed that there was a negative but significant relationship between dividend policy and share price $r = -0.323$, $p < 0.045$, dividend policy and leverage $r = -0.421$, $p < 0.009$ and a positive but insignificant relationship between liquidity $r = 0.079$, and $p > 0.636$ as shown in Table 4.19.

<table>
<thead>
<tr>
<th>Dividend Policy</th>
<th>dividend Policy</th>
<th>share price</th>
<th>leverage</th>
<th>liquidity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Correlation</td>
<td>1</td>
<td>-.323*</td>
<td>-.421**</td>
<td>0.079</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>0.045</td>
<td>0.009</td>
<td>0.636</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>share price</th>
<th>dividend Policy</th>
<th>share price</th>
<th>leverage</th>
<th>liquidity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Correlation</td>
<td>-.323*</td>
<td>1</td>
<td>.680**</td>
<td>.511**</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>0.045</td>
<td>0.001</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Table 4.21: Model Summary

<table>
<thead>
<tr>
<th>Mode</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Change Statistics</th>
<th>R Square Change</th>
<th>F Change</th>
<th>df1</th>
<th>df2</th>
<th>Sig. F Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.515a</td>
<td>.266</td>
<td>.199</td>
<td>.47202</td>
<td>.266</td>
<td>3.979</td>
<td>3</td>
<td>33</td>
<td>.016</td>
<td></td>
</tr>
</tbody>
</table>

A. Predictors: (Constant), Liquidity, Leverage, Share price

An ANOVA analysis was done between dividend policy against share price, leverage and liquidity at 95% confidence level, the F critical was 3.979 and the P value was (0.016) therefore significant the results are illustrated in table 4.22.

### Table 4.22: ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>2.659</td>
<td>3</td>
<td>.886</td>
<td>3.979</td>
<td>.016</td>
</tr>
<tr>
<td>Residual</td>
<td>7.352</td>
<td>33</td>
<td>.223</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>10.012</td>
<td>36</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
a. Dependent Variable: Dividend Policy

b. Predictors: (Constant), liquidity, leverage, share price

### 4.7.4 Coefficients of Dividend Policy and Co-Factors

The findings in table 4.23 indicates that only liquidity had a positive effect on financial performance ($\beta = 0.314, p<0.056$) whereas share price ($\beta =-0.305, p>0.074$) and leverage had a $\beta =-0.132, p>0.339$ has negative effect.

**Table 4.23: Coefficients of Dividend Policy and Co-Factors**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>4.893</td>
<td>.595</td>
<td></td>
<td>8.223</td>
</tr>
<tr>
<td>Share price</td>
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<td>.136</td>
<td>-.213</td>
<td>-.971</td>
</tr>
<tr>
<td>Leverage</td>
<td>-.305</td>
<td>.166</td>
<td>-.375</td>
<td>-1.843</td>
</tr>
<tr>
<td>Liquidity</td>
<td>.314</td>
<td>.159</td>
<td>.333</td>
<td>1.977</td>
</tr>
</tbody>
</table>

### 4.8 Chapter Summary

This chapter has highlighted results and findings based on respondents’ demography, effects of regular dividend policy on firm’s share price, effects of regular dividend policy on firm’s leverage and effects of regular dividend policy on firm’s liquidity. It was revealed that there was. Result revealed that there was a negative but significant relationship between dividend policy and share price $r=-0.323$ p<0.045, dividend policy and leverage $r=-0.421$, p<0.009 and a positive but insignificant relationship between liquidity $r=0.079$, and p>0.636. Chapter five will cover findings, conclusions and recommendations.
CHAPTER FIVE

5.0 DISCUSSION, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter presents summary and discussions based on the research. In addition, literature review was also used to discuss findings. The chapter is divided into four subsections; discussion of the findings, conclusions, recommendations and areas of further studies.
5.2 Summary of the Study

The purpose of the study was to establish the effects of dividend policy on a firm’s financial performance: a case study of Serena Group of hotels in Kenya. The study was guided by the following research objectives; to determine the effects of regular dividend policy on a firm’s share price, to examine the effects of regular dividend policy on firm’s leverage and to determine the effects of regular dividend policy on firm’s liquidity.

The study used descriptive research. The target population was 118 employees of Serena Group of hotels. A sample of 54 respondents was selected using stratified random sampling. Structured questionnaires were used to collect data. Data was analysed using descriptive statistics. Pearson correlation and regression analysis was used to determine the relationship between independent variables on the dependent variable. Data was coded according to different variables of the study. Coded data was then analysed using Statistical Package for Social Sciences (SPSS) software. Results were presented and interpreted using frequencies, mode, mean percentiles, variances and standard deviations. Tables, figures and chart was used to analyse and interpretation data.

The findings on effects of regular dividend policy on firm’s share price revealed that respondents strongly agreed that higher earnings per share and dividends per share ratios result to a higher share price leading to better financial performance, increase in dividend payment increases stock prices leading to better financial performance, increase in cash dividends leads to increase in share price resulting to better financial performance of your organization, favourable dividend announcements attracts investors leading to better financial performance and high share price leads to increase in dividend payment resulting to better financial performance increase in cash dividends leads to increase in share price resulting to better financial performance of your organization.

The findings on effects of regular dividend policy on firm’s leverage revealed that respondents strongly agreed that high debt to equity ratio increases dividend payment of your firm resulting to better financial performance and increase in financial leverage leads to better returns to existing shareholders resulting to better financial performance in the organization. In addition, respondents also agreed that agreed that use of no debt increases dividend payment resulting to better financial performance and increase in financial leverage leads to better returns to existing shareholders resulting to better financial performance. However, there was a disagreement on use of relatively less debt
in total capital creates room to pay dividends leading to better financial performance in the organization and leverage increases your company’s finances hence more funds to pay dividends leading to better financial performance of your organization.

The findings on effects of regular dividend policy on firm’s liquidity revealed that respondents agreed that regular dividend policy improves the liquidity of the organization leading to better financial performance; good cash position means the company can distribute cash dividends leading to better financial performance and high firm liquidity leads to better financial performance. However, there was a disagreement on paying higher dividend in the organization leads to better financial performance and distribution of stock dividends leads to better financial performance.

5.3 Discussion

5.3.1 Effects of Regular Dividend Policy on Firm’s Share Price

The findings established that higher earnings per share and dividends per share ratios result to a higher share price hence, leading to better financial performance. This is line with studies done by Hussainey et al (2011) who revealed that earnings, rate of growth as well as its debt levels are determinants for the changes in the share price. According to a study done by Galgallo (2016), on the effect of earnings and dividends on share prices of firms listed at the Nairobi Securities Exchange. Findings revealed that earnings and dividends affect the value of shares of a firm in the long run and that the association is significant and constructive.

Findings revealed increase in dividend payment increases stock prices thus, leading to better financial performance. In support to this statement, according study done by Attah-Botchwey (2014); Khan et al (2011); Munyua (2012) who revealed that there was a positive relationship between company’s regular dividend policy and the movement of its share price. However, in contrast according to a study done by Nyagaka (2012) on the relationship between dividend pay-out ratio and market values of firms listed at the Nairobi Securities Exchange. It was established that there was a weak relationship between dividend pay-out ratio and market value.

Findings established that high share price leads to increase in dividend payment resulting to better financial performance. This is in line with study done by Ogolo (2012) on the effect of regular dividend policy on share price on 61 firms listed in Nairobi Stock
Exchange. Findings revealed that there was a significant positive relationship between market price per share with two main measurements of dividend policy which are earnings per share and dividend pay-out ratio. Findings revealed that increase in cash dividends leads to increase in share price resulting to better financial performance in the organization. Findings are in line with a study done by Tuigong (2016) on effects of regular dividend policy on share price of firms listed at the Nairobi Securities Exchange, Kenya. Findings revealed that regular dividend policy affects the share price and that increase in cash dividend would result in increase in share price for companies listed at the Nairobi Securities Exchange.

It was revealed that a favourable dividend announcement attracts investors leading to better financial performance. In support to this statement finding based on Ndungu (2016) pointed out that the reaction of share price to the announcement of dividends depends on whether the securities being traded are bearish or bullish in nature. Securities are said to be bullish if the share prices are consistently having an upward trend while they are said to be bearish if they are always on a decline. This therefore means that dividend announcements in a bullish market will see the share price of various securities increasing and vice versa for the bearish markets. This consistency is also brought about by investors within the same market who in most cases have the same behaviour or reactions to information from company managers. Based on his research on numerous listed companies within the Nairobi Stock Exchange, he concluded that the regular dividend policy adopted in an organization is relevant to the company’s share value.

5.3.2 Effects of Regular Dividend Policy on Firm’s Leverage

Findings established that high debt to equity ratio increases organizations dividend payment resulting to better financial performance. This statement is similar to a study done by Wahdaniah (2013) revealed that debt to equity ratio DER has a significant effect on profitability. Deitiana (2013) debt to equity ratio (DER) can have an effect on Net Profit Margin and Dividend Policy. Debt to equity ratio (DER) is the ability of a company to pay debts from its own capital (equity). In addition, a company that has high level of debt to equity ratio DER are able to pay their expenses, increase Net Profit Margin (NPM) and also affect Dividend Policy.

It was revealed that increase in financial leverage leads to better returns to existing shareholders resulting to better financial performance in the organization. This is in line
with study done by Benito and Young (2001) stated that higher leverage is closely related with dividend reduction and omission. In Addition, an increase in financial leverage may bring better returns to some existing shareholders but its risk also increases as it causes financial distress and agency costs. Findings revealed that majority of the respondents disagreed with the statement that use of relatively less debt in total capital creates room to pay dividends leading to better financial performance in the organization. This is in line with Aivazian and Booth (2003) asserted that firms with relatively less debt in total capital are more likely to pay dividends this is because, they have greater financial slack and are able to maintain their dividends.

Findings revealed that majority of the respondent’s disagreed with the statement that leverage increases company’s finances hence more funds to pay dividends leading to better financial performance of your organization. In contrast according to Aasia et al, (2011), the leverage also influences the dividend behaviour of companies provided the level of the leverage is high, which means that investment in the firm is comparatively riskier in the manners of cash flow. Companies who have a past of higher leverage normally pay lower dividend to avoid the higher cost of raising external capital for the company. Ruchi and Manisha (2017) financial leverage can increase the return on investment for the shareholder and also provides tax benefits associated with borrowing. Furthermore, leverage can also increase the risk quotient of the business as a results paying out less dividends to its investors and retaining a higher portion of the profit hence investing in projects that would decrease company’s debts (Ruchi and Manisha, 2017).

5.3.3 Effects of Regular Dividend Policy on Firm’s Liquidity

The study established that regular dividend policy improves the liquidity of the organization leading to better financial performance. Similar to this statement according to Pandey (2005), dividend represents a cash outflow, the greater the funds and the liquidity of the firm the better the ability to pay dividend. The liquidity of a firm depends very much on the investment and financial decisions of the firm which in turn determines the rate of expansion and the manner of financing.

Ibrahim (2015) conducted a research on relationship between dividends and the company’s liquidity position. He defined liquidity dividends as funds that can be used to pay the company’s shareholders within the short term. This means that investors with current or future needs related to liquidity will prefer shares that pay dividends. Shares
that lead to higher liquidity levels were evidenced to trade within a premium leading to lower returns while compare to shares that had lower liquidity levels. Ahmed prescribed that organizations can pay out cash dividends to reduce the dependence investors have on the market liquidity leading to higher valuations of the company.

It was revealed that good cash position means the company can distribute cash dividends leading to better financial performance. This is in line with Liu and Hu (2005) states that if the cash dividend is less than the free cash flow, it means the firm has residual cash, if the cash dividend is more than the free cash flow then it means the firm needs financing to meet the requirement of cash dividends. According to Pandey (2005) the availability of cash and sound financial position is also an important factor in dividend decisions.

It was established that high firm liquidity leads to better financial performance. According to Westerfield et al (2011), young and unprofitable firms pay low dividends because of low liquidity. This is because much of its earnings is taken for investment purposes, but as the firms matures, it begins to generate cash flows that are needed to fund profitable investments and this surplus and this surplus must be distributed as dividends to shareholders since it may cause agency problems. However, in contrast according to studies done by Biger and Tibrewala (2010); Mehta (2012) findings revealed that there was a negative relationship between liquidity and pay-out ratio.

Findings revealed that majority of the respondents disagreed with the statement that paying higher dividend in the organization leads to better financial performance. According to Mulwa (2014) researched on the relationship between regular dividend pay-out ratio and the value of the firm for companies listed at the Nairobi Securities Exchange. Findings revealed that the combined effect of dividend pay-out ratio, current ratio, liquidity and growth opportunity was statistically significant in explaining changes in value of the firm of listed companies in Kenya.

Findings revealed that majority of the respondents disagreed with the statement that distribution of stock dividends leads to better financial performance. In contrast according to a research done by Olang et al (2015) on effect of liquidity on the dividend pay-out by firms listed at the Nairobi Securities Exchange, Kenya. Finding revealed that profitability plays a major role in dividend pay-out because of the higher coefficient as compared to cash flows and working capital and consequently the companies which posted higher profits translated this to higher dividends paid out to investors. The study recommends
that firms should ensure that profits are stable, cash flows freely flow into the firm and working capital is efficiently managed so as to increase the firms’ dividend pay-out.

5.4 Conclusion

5.4.1 Effects of Regular Dividend Policy on Firm’s Share Price
The study concluded that share price is affected by higher earnings per share, increase in cash dividends and dividend per share ratio. In addition, increase in dividend payment increases stock prices, high share price leads to increase in dividend payment favourable dividend announcements attracts investors and increase in financial performance in an organization.

5.4.2 Effects of Regular Dividend Policy on Firm’s Leverage
Dividend policy in an organization is influenced by high debt to equity ratio. In addition, increase in financial leverage and use of no debt will enable an organization pay returns to its investors hence increasing firm performance. However, an organization will not be able to pay dividend if they have led debt in total capital.

5.4.3 Effects of Regular Dividend Policy on Firm’s Liquidity
Organizations can use dividend policy to increase its liquidity. In addition, the greater the cash flow/funds an organization has the better the ability to pay dividend and high firm liquidity leads to better financial performance. However, paying higher dividend and distribution of stock dividend will not influence and organizations financial performance.

5.5 Recommendation

5.5.1 Recommendation for improvement

5.5.1.1 Effects of Regular Dividend Policy on Firm’s Share Price
It is recommended that investors should invest in companies that regularly pay cash dividend. This is because it will increase shareholder wealth and encourage more investors to invest in the organization hence increase demand for share.

5.5.1.2 Effects of Regular Dividend Policy on Firm’s Leverage
The organization should look for ways to ensure that the have relatively less debt in total capital. Through this, the organization will be able to pay dividends hence have extra money that they can use to invest in other areas and maintain their dividends.
5.5.1.3 Effects of Regular Dividend Policy on Firm’s Liquidity

Profitability plays a major role in dividend pay-out. Therefore, the organization should ensure that their profits are stable and that they have free cash flow flowing. Through this, the organization will be able to have higher dividends that they can use to pay their investors hence, increase firms performance.

5.5.2 Recommendation for further studies

This study examined the effect of dividend policy on a firm’s financial performance. A lot of studies have been done on the effect of dividend policy on a firm’s financial performance for firms listed at the Nairobi securities exchange. Therefore, a similar study should be done in other organization to find out if factors that are affecting firms listed at the Nairobi securities exchange are similar to companies that are not listed at the Nairobi securities exchange.

REFERENCES


Accountancy, University Technology MARA, 40450 Shah Alam, Selangor, Malaysia.


APPENDIX I: QUESTIONNAIRE

SECTION 1: DEMOGRAPHIC INFORMATION

Instructions: Answer the following questions as pertains to your firm by ticking in the space left next to the preferred answer. If you answer “other,” please provide specifics.

1. What is your gender?
   Male [ ]
   Female [ ]

2. What is your age?
   Less than 30 years [ ]
   30-39 years [ ]
   40-49 years [ ]
   50 years and above [ ]

3. What is your highest level of education?
   Diploma [ ]
Graduate □
Masters □
PhD □

4. **For how long have you worked in your organization?**
   - Less than 1 year □
   - 1-5 years □
   - 6-10 years □
   - Over 10 years □

5. **For how long has your organization been in existence?**
   - Less than 1 year □
   - 1-5 years □
   - 6-10 years □
   - Over 10 years □

6. **What management position do you hold in your organization?**
   - □ Top level management
   - □ Middle level management
   - □ Other (Please specify) ___________________________________

---

**SECTION 2: EFFECTS OF REGULAR DIVIDEND POLICY ON A FIRM’S SHARE PRICE**

**Instructions:** Tick the box relating to the degree of agreement of each of these statements in establishing the effect of regular dividend policy on the firm’s share price.

**Level of Agreement**
- SD=Strongly Disagree
- D=Disagree
- N=Neutral
- A=Agree
- SA=Strongly Agree

<table>
<thead>
<tr>
<th>Factors</th>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Higher Earnings Per Share and Dividends Per Share ratios result to a higher share price leading to better financial performance of your organization.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
2. An increase in dividend payment increases stock prices leading to better financial performance of your organization.

3. A high share price leads to increase in dividend payment resulting to better financial performance of your organization.

4. Favourable dividend announcements attracts investors leading to better financial performance of your organization.

5. An increase in cash dividends leads to increase in share price resulting to better financial performance of your organization.

---

**SECTION 3: EFFECTS OF REGULAR DIVIDEND POLICY ON A FIRM’S LEVERAGE**

**Instructions:** Tick in the box relating to the degree of agreement of each of these statements in establishing the effect of regular dividend policy on the firm’s leverage.

**Level of Agreement**

SD=Strongly Disagree  D=Disagree  N=Neutral  A=Agree  SA=Strongly Agree

<table>
<thead>
<tr>
<th>Factors</th>
<th>Level of Agreement</th>
</tr>
</thead>
<tbody>
<tr>
<td>The use of no debt increases dividend payment resulting to better financial performance of your organization.</td>
<td>SD  D  N  A  SA</td>
</tr>
</tbody>
</table>
Increase in financial leverage leads to better returns to existing shareholders resulting to better financial performance of your organization.

Use of relatively less debt in total capital creates room to pay dividends leading to better financial performance of your organization.

Leverage increases your company’s finances hence more funds to pay dividends leading to better financial performance of your organization.

A high Debt to Equity Ratio increases dividend payment of your firm resulting to better financial performance.

SECTION 4: EFFECTS OF REGULAR DIVIDEND POLICY ON A FIRM’S LIQUIDITY

Instructions: Tick the box relating to the degree of agreement of each of these statements in establishing the effect of regular dividend policy on the firm’s liquidity.

Level of importance
SD=Strongly Disagree D=Disagree N=Neutral A=Agree SA=Strongly Agree

<table>
<thead>
<tr>
<th>Factors</th>
<th>Level of importance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Regular dividend policy improves the liquidity of your organization leading to better financial performance of your organization</td>
<td>SD D N A SA</td>
</tr>
</tbody>
</table>
A good cash position means your company can distribute cash dividends leading to better financial performance.

Your organization pays high dividends leading to better financial performance of the firm.

Distribution of stock dividends in your organization leads to better financial performance.

High liquidity by your firm leads to better financial performance.

### SECTION 6: DIVIDEND POLICY

**Instructions:** Tick the box relating to the degree of agreement of each of these statements in establishing the effect of regular dividend policy on the firm’s liquidity.

**Level of importance**

SD=Strongly Disagree  D=Disagree  N=Neutral  A=Agree  SA=Strongly Agree

<table>
<thead>
<tr>
<th>Factors</th>
<th>Level of importance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profits attained in this company determine the dividend policy adopted per financial year.</td>
<td>SD  D  N  A  SA</td>
</tr>
<tr>
<td></td>
<td>Dividend paid out to shareholders is subject to the liquidity status of the firm.</td>
</tr>
<tr>
<td>---</td>
<td>-----------------------------------------------------------------------------</td>
</tr>
<tr>
<td>3</td>
<td>Financial leverage of the company determines dividend paid to investors</td>
</tr>
</tbody>
</table>