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EFFECT OF DIVIDEND POLICY ON FINANCIAL PERFORMANCE OF SELECTED TEA FACTORIES IN KERICHO HIGHLANDS REGION

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Abstract: **The study sought to establish the effect of dividend policy on financial performance of selected tea factories in Kericho Highland Region. Specifically, the study was meant to determine the different types of divided policies including cash, bond, interim and stock dividends adopted by tea factories in Kericho Highland Region, investigate whether or not dividends policy increases financial performance in selected tea factories in the Highlands region, find out the challenges faced by the tea factories while declaring dividends in their factories, and propose possible remedies in curbing the challenges facing tea factories while declaring dividends to shareholders. The study adopted a survey design which targeted the managers, supervisors, quality assurance personnel, and accountants. The research data was collected using questionnaires.The analysis was performed using data derived from the financial statements of listed selected factories from on KTDA during the most recent period. The regression analysis was meant to establish the form of relationship between the independent and dependent variables. The results show positive relationships between dividend policy and performance of selected tea factories. Surprisingly, study reveals that bigger firms on KTDA perform less with respect to return on assets. The results also reveal negative associations between return on assets and dividend payout ratio and return on investment. The results of the study generally support previous empirical.**

Keywords: **Effect, Dividendedpolicy, Performance.**

1. INTRODUCTION

Background of the Study:

Dividends are payments made by a corporation/company to its shareholder. It is the portion of corporate/company profits paid out to shareholders. Dividend Policy refers to the explicit or implicit decision of the Board of Directors regarding the amount of residual earnings (past or present) that should be distributed to the shareholders of the corporation (Gibson 2009).

Dividend policy is the policy used by a company to decide how much it will pay out to shareholders in dividends. The entire organization after deducting expense from the revenue, a company generates profit. Part of the profit is kept in the company as retained earnings and the other part is distributed as dividends to shareholders. From the share valuation model, the value of a share depends very much on the amount of dividend distributed to shareholders (Simon, 2009).

Cash Dividends According to Yana cash dividend is a dividend paid in cash. To be able to pay cash dividends, companies need to have not only sufficient earnings but also sufficient cash. Even if a company shows a large amount of retained earnings on its balance sheet, it may not be enough to ensure cash dividends. The amount of cash that a company has is

independent of retained earnings. Cash-poor companies still can be profitable. Dividend pay-out ratio is the percentage of share of the net earnings attributed to the shareholder as dividends hence firms distribute as cash dividends a certain percentage of annual earnings in pay out rates. Grinstein (2005).

Bond Dividend accourdind to Abor is paid in the form of debentures or bonds or notes for a long-term period. The effect of such dividend is the same as that of paying dividend in scrips. The shareholders become the secured creditors are the bonds has a lien on assets.

Scrip dividends: These are promises to make the payment of dividend at a future date: Instead of paying the dividend now, the firm elects to pay it at some later date. The 'scrip' issued to stockholders is merely a special form of promissory note or notes payable.Amidu (2007).

Interim dividend as stated by Love is generally declared and paid when company has earned heavy profits or abnormal profits during the year and directors which to pay the profits to shareholders. Such payment of dividend in between the two Annual General meetings before finalizing the accounts. Rachinsky(2007).

Stock Dividends; A firm with adequate retained earnings but insufficient liquidity may elect to issue "stock dividends" by a pro rata distribution of additional shares of the firm's own stock to its stockholders. The transaction is made by a capitalization of retained earnings resulting in a reduction of retained earnings and an increase in some contributed capital accounts.

It is well known that managers try to maintain their companies by maintaining dividend levels and dividend pay-out ratios. Harvey show that dividend-payers try to smooth yearly dividend streams and maintain consistency with their past dividend policies in all tea factories, e.g., dividend levels and payout ratios. Michaely (2005)

Dividend policies include setting the existing dividend as the central benchmark, targeting a relatively fixed payout ratio, determining whether and how much to change dividend payments based on changes in earnings, and making partial adjustment to what is suggested by changes in earning. Financial performance is a measure of the outcomes of a firm's operations and policies in monetary terms.

Local Perspective on Dividend Policy on Performance.

Tea is one of the top foreign exchange earners in Kenya alongside horticulture, coffee and tourism. The tea firms are managed by KTDA through contractual agreements intended to ensure efficient production, processing and marketing. KTDA manages 54 tea processing firms serving more than 500,000 small scale farmers in Kenya. KTDA members produce 60% of the tea in Kenya while large scale farmers produce the rest (KTDA, 2016). KTDA has grouped the processing firms into seven regions depending on geographical location. The regions are, Kisii Highlands, Kericho Highlands, Mt.Kenya and Nyambene Hills, Mt. Kenya, Aberdare Ranges, Nandi Hills and Western highlands (KTDA, 2016).

Two indices are popularly used to measure performance in Kenya. The NSE 20-Share Index has been in use since 1964 and measures the performance of 20 blue-chip companies with strong fundamentals and which have consistently returned positive financial results. This index primarily focuses on price changes for these 20 companies. In 2008, the Nairobi

Stock Exchange All Share Index (NASI) was introduced as an alternative index. Its measure is an overall indicator of market performance. The Index incorporates all the traded shares of the day. Its attention is therefore on the overall market capitalization rather than the price movements of select counters. NSE has 64 listed firms (NSE, 2015).

For a company to be listed at the NSE, one of the requirements is that they should have a clear future dividend policy. This makes dividend policy a very important factor worthy of management attention. In Kenya dividends are taxed at 5% as a final tax for individuals while capital gains tax are tax exempt (Income Tax Act, 2012). Firms that are able to meet the above requirement and meet the needs of individual investors are more likely to be able to command a higher share price premium and thus an increased firm performance.

Most firms listed at the NSE mostly pay dividends in the form of cash dividend and bonus shares. Buy back of shares as a form of dividend is rare in Kenya. Cash dividends are usually paid twice in any given financial year as interim, which is paid at the end of quarter two, and final dividend which is paid at end of the financial year. In some years when there is unexpected income, firms pay a one-off extra dividend which is consistently paid in the subsequent years. However, there are some firms which have not paid a dividend for many years due to financial difficulties. Most firms listed at the NSE have clearly defined dividend policies that are in line with the general dividend practice in the industry.

Tea Factories in Kericho on Dividend Policy on Performance.

Dividend policy has been an issue of interest in financial literature since Joint Stock Companies came into existence. Dividends are commonly defined as the distribution of earnings (past or present) in real assets among the shareholders of the firm in proportion to their ownership. Dividend policy connotes to the payout policy, which managers pursue in deciding the size and pattern of cash distribution to shareholders over time.

Managements' primary goal is shareholders' wealth maximization, which translates into maximizing the value of the company as measured by the price of the company's common Stock. This goal can be achieved by giving the shareholders a "fair" payment on their investments. However, the impact of firm's dividend policy on shareholders wealth is still unresolved.

Dividend policy can be of two types: managed and residual. In residual dividend policy the amount of dividend is simply the cash left after the firm makes desirable investments using NPV rule. In this case the amount of dividend is going to be highly variable and often zero. If the manager believes dividend policy is important to their investors and it positively influences share price valuation, they will adopt managed dividend policy. The optimal dividend policy is the one that maximizes the company's stock price, which leads to maximization of shareholders' wealth. Whether or not dividend decisions can contribute to the value of firm is a debatable issue.

Firms generally adopt dividend policies that suit the stage of life cycle they are in. For instance, high- growth firms with larger cash flows and fewer proposals tend to pay more of their earnings out as dividends. The dividend policies of firms may follow several interesting patterns adding further to the complexity of such decisions. First, dividends tend to lag behind earnings, that is, increases in earnings are followed by increases in dividends and decreases in earnings sometimes by dividend cuts. Second, dividends are "sticky" because firms are typically reluctant to change dividends; in particular, firms avoid cutting dividends even when earnings drop. Third, dividends tend to follow a much smoother path than do earnings. Finally, there are distinct differences in dividend policy over the life cycle of a firm, resulting from changes in growth rates, cash flows, and proposal investments in hand. Especially the companies that are vulnerable to macroeconomic vicissitudes, such as those in cyclical industries, are less likely to be tempted to set a relatively low maintainable regular dividend so as to avoid the dreaded consequences of a reduced dividend in a particularly bad year.

Shareholders wealth is represented in the market price of the company's common stock. This, in turn, is the function of the company's investment, financing and dividend decisions. Among the most crucial decisions to be taken for efficient performance and attainment of objectives in any organization are the decisions relating to dividend. Dividend decisions are recognized as centrally important because of increasingly significant role of the finances in the firm's overall growth strategy. The objective of the finance manager should be to find out an optimal dividend policy that will enhance value of the firm. It is often argued that the share prices of a firm tend to be reduced whenever there is a reduction in the dividend payments. Announcements of dividend increases generate abnormal positive security returns, and announcements of dividend decreases generate abnormal negative security returns. A drop in share prices occurs because dividends have a signaling effect. According to the signaling effect managers have private and superior information about future prospects and choose a dividend level to signal that private information.

Statement of the Problem:

A positive relationship is expected to exist between dividend policy and a firm's performance. A positive change in the firm's dividend policy is supposed to communicate bright future prospects for the company. The main aim of dividends in a firm is shareholder's wealth maximization, to increase the value of the firm and to signal to stakeholders that the firm's finances are sound. This study sought to investigate the effect of dividend policies on financial performance of tea processing firms in Kericho Highlands Region as one of the factors.

2. LITERATURE REVIEW

Tax Preference and Clientele Theory:

Given the nature of dividend payouts, it makes most sense if only a few or no firms paid out dividends at all. When compared to other means of distributing wealth to shareholders, dividends are more costly in the majority of countries since they are taxed at a higher rate. Because of these taxes, investors cannot create their own dividend policy without inflicting additional cost, and because the tax rate is higher on dividends than on capital gains, most investors are better off without dividends.

Normally most investors pay higher taxes on dividends than on capital gains, however depending on which type of investor is considered, there is a separation into different tax brackets. Some investors have low marginal tax rates or are completely tax exempt. Such investors are typically large institutional investors as insurance funds, and pension funds. Because of these different tax implications for different types of investors a tax clientele effect may arise, some showing preferences for dividends and some for capital gains depending on what maximizes their value. Because dividends normally suffer from tax disadvantages, investors with a low marginal tax rate are expected to invest in high dividend yielding stocks and vice versa. Elton (1970), and Barclay (1987) suggested that the clientele effect does indeed exist. Conversely, Miller (1978) argued against clientele effects by showing that tax differences between dividends and capital gains can be neutralized by simply levering the portfolio.

An investor in a high tax bracket would prefer to invest in bond giving a low rate of return so as to pay less tax. On the other hand, an investor in a low tax bracket would definitely invest in stocks with higher returns as he currently does not have a large tax liability. Pettit (1977) showed that older investors (retired persons) were more likely to hold high dividend shares because they pay lower income tax. In this case we call it the tax clientele effect. Hence the clientele effect refers to firms making their dividend policy decision based the customers they would like to attach to themselves Litzenberger (1979).

Brigham (2004) avowed as stockholders can switch firms based on their specific dividend preference a firm can change from one dividend payout policy to another and then let stockholders who do not like the new policy sell to other investors who do. However, frequent switching would be inefficient due to some constraints brokerage costs, the likelihood that stockholders who are selling will have to pay capital gains taxes, and a possible shortage of investors who like the firm's newly adopted dividend policy. Thus, management should be hesitant to change its dividend policy, because a change might cause current shareholders to sell their stock, forcing the stock price down. Such a price decline might be temporary, but it might also be permanent. So the existence of a clientele effect does not necessarily imply that one dividend policy is better than any other. May be wrong, though, and neither they nor anyone else can prove that the aggregate makeup of investors permits firms to disregard clientele effects. This issue, like most others in the dividend arena, is still up in the air. Meyers (2003).

Agency Theory:

Explanation put forward in relation to dividend policy before the 1980s was the agency cost theory (La Porta et al. 2000). Agency costs are costs incurred in the process of monitoring the company's management to prevent inappropriate behavior. When dividend payouts are large, this reduces the internal cash flows for the firm and thus forces managers to seek external financing. This exposure to external financing makes them liable to reach out to capital suppliers, which in turn reduces their agency costs (Saxena, 1999). This theory therefore supports the bond dividend objective in that internal financing will be established by issuing bond to shareholders.

In the case of Kenya, the legal protection for shareholders (outside shareholders) is poor as their investor's rights are not provided much protection. The government plays a significant role in this way, with government ownership in most companies resulting in the government acting on behalf of the shareholders with minority ownership. Thus, the government acts more like a powerful investor on behalf of all investors. As a result, controlling shareholders are forced to protect the rights of minority shareholders, with the result that this arrangement helps to reduce agency costs (Naser, 2004).

In 1984, Myers has proposed the modified pecking order theory that for any company, the cost of financing (internal funding, debt, and equity) increases as asymmetric information increases. Raising new equity is the least preferred method of financing. According to the pecking order theory, a firm maintains a hierarchy of financing methods, with internal financing as the most preferred method. Firms prefer internal financing to external financing, and maintain their pre-determined dividend payout ratios while at the same time avoiding any changes in their pre-set dividend targets.

Although the dividend policy has been analyzed for more than a few decades, no universally acceptable theorem has been developed. In the case of Kenya this has not yet been proven. However, studies have indicated that in Kenya like in many African countries, in situations when people hold power, their power influences the behavior of others (Clark, 2004). In Kenya, many of the members of the royal family sit on the boards of corporations. Appointed as directors or more senior members of the board, they closely monitor management. However, their behavior and decision making largely depends

on how powerful they are. In such cases, it is difficult to determine which source of funding a company might seek. This is an important factor that affects the source of financing, but evidence is lacking to support this claim in any of the GCC countries, let alone in Kenya in particular, as little research has been conducted in developing economies (Al Malkawi, 2005). In such cases, firms will prefer to increase their dividends and reduce agency cost by distributing the free cash flow. Consequently, markets react positively to this type of information. Studies suggest that dividend payout ratios may be explained by reduced agency costs when the firm increases its dividend payout.

Signalling Theory:

The signaling theory, proposed in the early 1980s, puts forth the importance of information asymmetry between shareholders and managers. This theory reveals how Interim dividends can be used as a tool and act as a signal to leak private information about a company and its performance to outsiders (Aharony 1980). Miller (1985) developed this theory. The signaling effect of dividends theory states that dividends convey information about future earnings. It supports the fact that investors can infer information about a firm's future status and cash flows based on the signals that come from the announcements of dividends by a firm, both checking from stability of dividends and changes in dividends. Thus there is a positive reaction to dividend profit increase and a negative one to dividend profit decrease. The theory supports the fact that dividend policy affects positively the financial performance of a firm.

The signaling theory implies that investors partially base their assumptions of future cash flows of a firm on signals sent from that firm. It revealed that information asymmetry between managers and outside shareholders allows managers to use dividends as a tool to signal private information about a firm's performance to outsiders. Management will not increase the dividends unless they certain about the future earning to meet the increase in dividends. And conversely dividend cuts are perceived as "bad news" if the firms reduce dividends, it sends to investors a negative message that future earning will be less than current Miller (1980). According to Signalling theory, managers have inside information about a firm that they cannot, or do not wish to pass on to the shareholders, for example, better estimates of future earnings. Corporate dividends are considered to be management's most cost-effective way of reducing the investor uncertainty about the company's value.

Rock (1985) suggest that outside investors have imperfect information about firms' profitability, and therefore dividends function as a signal of expected cash flows. Hence dividend act as signal of the stability of the firms' future cash flows. The idea is that there are many signals which can give hints to what level of future cash flows can be expected, or if they will increase or decrease. The reasoning is that firms which are confident about high future cash flows would like to communicate this information to the investors because it could most likely increase market value of the firm. At the same time however, any firm would like to increase their market value, so the signals should be such that poor performing firms would be unable to mimic them.

Signaling helps to explain why some firms would want to pay out dividends. In most cases dividends' benefit to shareholders is smaller than from capital gains because of the higher tax rate; however dividend announcements can be used to highlight managers' confidence in expected future prospects of the firm. Research in dividends done by Bhattacharya (1979) and indicates that the effect of signaling by means of dividend payouts is greater in cases with higher degree of asymmetric information. They show that the level of asymmetric information is positively correlated with stock price effects from signaling through dividend announcements.

However Skinner (1996) find opposing evidence that dividends are not good at explaining future earnings. If the effect of asymmetric information on dividends is great, then it should be clearly reflected by smaller firms paying out dividends to a higher extend than the larger. Managers are often reluctant to reduce dividend payments base a part of their perception of the certainty about future earnings on announcements of dividends. Therefore dividend omissions are not well received by the investors. Investors see increases in dividends as a positive signal while decreases are perceived as negative. Furthermore Bernheim (1995) show that the effect of dividend-signaling is even higher when taxes on dividends are high.

The choice of dividend policy decides whether or not dividend-signaling sends information to the investors. Managers can set the policy so that dividends are paid as a fixed percentage of earnings resulting in a disappearance of the signaling effect. Investors can no longer rely on changes in dividends as a signal of the future prospects of the firm, because dividends are no longer set by managers to reflect their future earnings expectations.

Bird in the Hand Theory:

According to the bird-in-the-hand theory, which criticized Miller and Modigliani's paper explains that investors prefer dividends (certain) to retained earnings. This proposed by Gordon (1963) and Lintner (1962), is in line with cash dividend because if all other factors are equal, investors prefer dividends to capital gains because they perceive dividends today as a certain cash flow, as opposed to capital gains in the future which are uncertain.

The name "bird in hand" is the umbrella term for all studies that argues that dividends are positively correlated to the company's value, hence company value act as a motivating factor for the payment of dividend. It is based on the expression that "a bird in the hand is worth more than two in the bush". Expressed in financial terms the theory says that investors are more willing to invest in stocks that pay current dividend rather than to invest in stocks that retain earnings and pay dividends in the future. They argue that the combined value of dividends and capital gains diminish when dividend payout ratio increases. When a firm increases its payout ratio, investors become concerned that the firm's future capital gains will diminish, since the retained earnings that the firm reinvests into the business is reduced. Whether or not dividends are more certain, will be left uncommented and in this case it is not important. The important thing is that investors often believe that they are, such that it influences their preferences towards dividends. Moreover when making dividend payouts, the firm gets a higher rating from rating agencies as compared to a firm not making any dividend payout. With a better rating, the firm will be able to raise finance more easily from capital markets since credit institutions will be willing to give loans to the firm since the payout of dividends shows that the firm has the ability to meet its obligations. Moreover, in some cases, the firm will be able to borrow at preferential rates and enjoy better facilities. Gordon (1963) further argues that firms making dividend payouts tend to have an increase in the value of the firm.

Dividend is less risky than potential capital gains in the future, investors will be more willing to pay a higher price to a corporation with high rate of dividend pay-out. On the other hand, if investor accept low rate of dividend, they will require higher rate of return as a substitute for more uncertain investment and then it results in a higher cost of capital. The bird in the hand theory states that dividends are relevant in determining the value of the firm (Gordon, 1963). This is based on the notion that in the world of uncertainty and imperfect information, dividends are valued differently from retained earnings. Investors are viewed to be rational and thus prefer "a bird in hand", in this case the cash dividends, than "two in bush" in this case, future capital gains. Divided policy developed from the need of investors getting an annual return other than capital gains, (Lintner, 1956). Leaving the decision on issuance of dividends to directors and company managers is a challenge because investors have diverse views on present cash dividends and future capital gains.

Therefore, investors would be inclined to pay a higher price for shares on which current dividends are paid. Current cash dividend payment (bird in the hand) reduces investor uncertainty and result in the high value of the firm. Investors would therefore prefer dividends to capital gains (Amidu, 2007). This is because, a higher current dividend reduces uncertainty about future cash flows to investors and a high payout ratio will reduce the cost of capital.

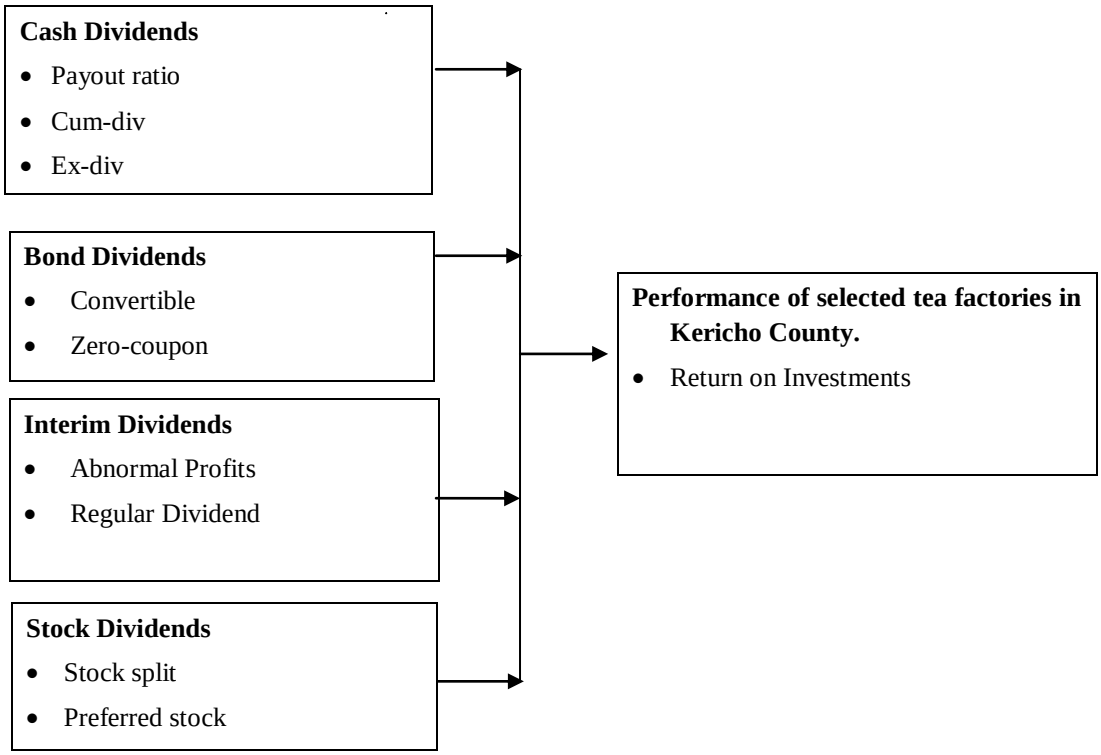
Dividend Irrelevance Theory:

The dividend irrelevancy theory proposed by Miller and Modigliani (1961),is basing his argument on stock dividend since in a perfect market; one with independence of investment and dividend policies of firms, perfect capital markets, no taxes, perfect information, no transaction or flotation cost, markets are complete and no agency costs or contracting cost associated with stock ownership dividend payments will not affect firm value. Modigliani & Miller,(1961) put forward the irrelevance theorems more commonly known as the MM theorems and argued that dividend policy has no effect on either the price of a firm's stock or its cost of capital. If dividend policy has no significant effects, then it would be irrelevant. The reason is that in the presence of perfect marked conditions, investors can create their own dividends without cost. If investors want a dividend they can simply sell off some of their shares. Equally if investors are paid a dividend, which they do not want, they can merely use the dividend to purchase additional shares in the firm. So if investors can create their own dividend policy without incurring extra costs, dividends are indeed irrelevant.

However the irrelevancy theory only holds, in such a perfect market, in which these seven assumptions hold. Nevertheless markets are not perfect and taxes and transaction costs do exist. Even so this does not make the theory less important. The dividend irrelevance theory supplies a framework through which one can test the implications of a violation of any of the assumptions. Various theories have been developed with the relaxation of MM assumptions.

The theories had with main objective to explain why companies pay dividends. Black (1976) argued that there may be infinite reasons of paying dividends and posed the question,' if dividends are irrelevant, why do corporations pay dividends' and 'why investors' pay attention to dividends'. He emphasized that companies pay dividends as a means of rewarding existing shareholders but the main argument was that dividends were paid so that the company is seen as a worthwhile investment.

Conceptual Framework:



Independent Variables **Dependent Variable**

Research Gaps:

So many factors both internal and external to a firm have to be considered when formulating the dividend policy, Most Kenyans buy and own shares for prestigious reasons aimed at boosting their egos and not for speculative reason, Share ownership in Kenya is an acceptable security in obtaining credit facility such as Bank loan, Share prices or Kenyan firms are fixed and regulated by the Securities and Exchange markets for quoted companies only, Kenyan firms do have a dividend policy that is dependent on earnings.

However, the trend is not very consistent and proportionate. From the earnings and dividends over time it can be said that the size of dividend is dependent on the amount earnings as, earnings and dividend follow the same trend, There is no correlation between dividend payment and share prices of Kenyan firms, There is also no correlation between net earnings and share prices. This may however be due to none availability of items which are not disclosed in the annual reports of companies but which are needed for adjustment in computing share prices when computing the earnings, Some Kenyan firms try to pay dividends at all cost, regardless of the level of profit recorded. This is mainly for psychological reasons on the part of the current and potential investors.

In conclusion, the study was able to establish the reasons why dividend is important to the Kenyan investors even though the policy may not after all affect the share price and consequently the value of the firm.

The area of corporate dividend policy has attracted attention of management scholars and economists culminating into theoretical modelling and empirical examination. Thus, dividend policy is one of the most complex aspects in finance. Three decades ago, Black (2000) in his study on dividend wrote, "The harder we look at the dividend picture the more it seems like a puzzle, with pieces that just don't fit together". Why shareholders like dividends and why they reward managers who pay regular increasing dividends is still unanswered.

3. DATA ANALYSIS, PRESENTTATION AND INTERPRETATION

Response Rate:

The study was done the factories listed in table BELOW. the response rate was distributed as per the proportional representation of the population where 15 (20%) respondents were selected from each of the factories.

Table : Tea Factories

Tea Factory	Frequency	Percentage
Kapkatet	15	20
Momul	15	20
Kapkoros	15	20
Tegat	15	20
Litein	15	20
Total	**75**	**100**

Correlations Analysis:

In order to understand the effect of dividend policy on financial performance of selected tea factories in Kericho Highlands Region a correlation analysis was carried out. The results were presented in table below

Table below: Correlation Analysis

	FP	CD	BD	ID	SD
FP	1	0.923	0.803	0.752	0.721
CD	0.923	1	0.432	0.431	0.400
BD	0.803	0.432	1	0.351	0.367
ID	0.752	0.431	0.351	1	0.231
SD	0.721	0.400	0.367	0.231	1

The correlations table displays Pearson correlation coefficients of the variables which were generally very strong. From the table, the results shows that Cash Dividends had the strongest relationship with financial performance in the tea factories at a correlation coefficient of 0.923, this was followed by Bond Dividend with a coefficient of 0.803, Interim Dividend had a relationship of 0.752 while Stock dividend had a correlation coefficient of 0.721. (The values of the correlation coefficient range from -1 to 1, the absolute value of the correlation coefficient indicates the strength, with larger absolute values indicating stronger relationships). Further the results show that the independent variables had a positive linear relationship with the dependent variable i.e an increase on any the independent variables lead to improvement on the dependent variable. The correlation coefficients on the main diagonal are 1, because each variable has a perfect positive linear relationship with itself.

Regression Analysis:

The multiple regression model given below was applied to establish relationship between the independent variables and dependent variable:

$Y = \beta_0 + \beta_1 \chi_1 + \beta_2 \chi_2 + \beta_3 \chi_3 + \beta_4 \chi_4 + \epsilon$

Where: Y = Financial Performance - FP

χ_1 = Cash Dividend - CD

χ_2 = Bond dividend - BD

χ_3 = Interim Dividend - ID

χ_4 = Stock dividend - SD

β_0 = the constant

β_1- β_4 = the regression coefficient or change included in Y by each χ

ϵ = error term

Summary Model:

The first part of the regression analysis presented findings on the level on extent to which the independent variables account for financial performance among the tea factories. This was presented in table below

TABLE BELOW: Model Summary

Model	R	R square	Adjusted R square	Std. Error of the Estimate
1	.730[a]	.673	.342	5.01231

a. Predictors: CD, BD, ID, SD

The **R** column represents the value of *R*, the *multiple correlation coefficient* at 0.730, which indicates a good level of prediction (strong correlation because it is close to 1). The "**R Square**" column represents the R^2 value i.e the coefficient of determination which is the proportion of variance in the dependent variable that can be explained by the independent variables (0.673). Thus the independent variables explain/account for 67.3% of the variability of the dependent variable, i.e CD, BD, ID, SD account for 67.3% of financial performance of the tea factories in Kericho Highland Region. The difference of 32.7% (from 100%) is accounted by other factors in the tea factories which were beyond the scope of this study.

Statistical Significance:

The *F*-ratio in the ANOVA table tests whether the overall regression model is a good fit for the data. An F statistic is a value one gets when he runs an ANOVA test or a regression analysis to find out if the means between two populations are significantly different. An F test tells if a *group* of variables are jointly significant. In the F test results, there are have both an F value and an F critical value. The F critical value is the *F statistics.* In general, if the calculated F statistic in a test is larger than the F value in the table, the null hypothesis is rejected. In this case, the F calculated is 0.215while the F critical is 4. 95 which implies that the model is statistically significant for the study.

The F statistic is used in combination with the p value when deciding if the overall results are significant. This is because if there is a significant F statistic, it doesn't mean that *all* the variables are significant. The statistic is just comparing the joint effect of all the variables together. The table shows that the independent variables statistically significantly predicted the dependent variable, $F = 0.100$, $p < 0.001$ i.e., the regression model was found to be a good fit for the data. In other words the data was relevant for this study.

Table below: Anova

Model	Sum of squares	df	Mean square	F	Sig.
1 Regression	1134.402	5	3280.133	0.100	.001[b]
Residual	367.001	11	23.007		
Total	4512.345	16			

a. Dependent variable; financial performance of the tea factories

b. Predictors: CD, BD, ID, SD

F calculated:

F calculated was found using the model below.

$$F \text{ Calculate} = \frac{(n_1 - 1)\, s_1^2 + (n_2 - 1)s_2^2 + (n_3 - 1)s_3^2 + (n_4 - 1)S_4^2}{N - g}$$

n = number of measurements in group

S = sum of squared deviations from the mean in each group

N = total number of measurements

G = total number of groups

F calculated = $\frac{(3-1)(7.33) + (5-1)(7.33) + (5-1)(10.83) + (5-1)(3)}{5-4}$

F calculated = 0.215

Model Coefficients:

The regression coeficients show the effect of each of independent variables on the dependent variable i.e the specific effect of cash dividends, bond dividend, interim divideng and stock divideng on financial performance of the tea factories. This was presented in table BELOW.

Table BELOW: Regression Coefficients

Model	Unstandardized coefficients		Standardized coefficients	t	Sig.
	β	Std. Error	Beta		
1 Constant	0.310	3.125	-	13.006	0.001
CD	0.125	0.015	0.146	2.003	0.002
BD	0.281	0.012	0.687	8.001	0.003
ID	0.115	0.015	0.342	2.347	0.000
SD	0.103	1.189	0.008	6.054	0.005

a. Dependent variable; financial performance among the tea factories

b. Predictors: CD, BD, ID, SD

Thus the model was translated as:

$Y= 0.310+0.125X_1+ 0.281X_2 + 0.115X_3 + 0.103X_4 + 0.015$

The researcher concluded that without considering cash dividends, bond dividends, interim dividends and stock dividends, the financial performance of the tea factories is constant at 0.310. Cash dividend improved the financial performance of the tea firms by 0.125. Bond dividends improved the financial performance of the tea factories by 0.281. Interim dividends improved the financial performance of the tea factories by 0.115 while stock dividends also improved the financial performance of the firms by 0.103. The model was also significant for all the variable because the p-values were less than 0.5.

4. SUMMARY OF THE FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

Summary of Findings:

The findings shows that the correlations table displays pearson correlation coefficients of the variables which were generally very strong. From the table, the results shows that Cash Dividends had the strongest relationship with financial performance in the tea factories at a correlation coefficient of 0.923, this was followed by Bond Dividend with a coefficient of 0.803, Interim Dividend had a relationship of 0.752 while Stock dividend had a correlation coefficient of 0.721.

The R column represents the value of *R*, the *multiple correlation coefficient* at 0.730, which indicates a good level of prediction (strong correlation because it is close to 1). The "R Square" column represents the R^2 value i.e the coefficient of determination which is the proportion of variance in the dependent variable that can be explained by the independent variables (0.673). Thus the independent variables explain/account for 67.3% of the variability of the dependent variable, i.e CD, BD, ID, SD account for 67.3% of financial performance of the tea factories in Kericho Highland Region. The difference of 32.7% (from 100%) is accounted by other factors in the tea factories which were beyond the scope of this study.

The *F*-ratio in the ANOVA table tests whether the overall regression model is a good fit for the data. An F statistic is a value one gets when he runs an ANOVA test or a regression analysis to find out if the means between two populations are significantly different. An F test tells if a *group* of variables are jointly significant. In the F test results, there are have both an F value and an F critical value. The F critical value is the *F statistics.* In general, if the calculated F statistic in a test is larger than the F value in the table, the null hypothesis is rejected. In this case, the F calculated is 0.215while the F critical is 4. 95 which implies that the model is statistically significant for the study.

The F statistic is used in combination with the p value when deciding if the overall results are significant. This is because if there is a significant F statistic, it doesn't mean that *all* the variables are significant. The statistic is just comparing the joint effect of all the variables together. The table shows that the independent variables statistically significantly predict the dependent variable, $F = 0.100$, $p < 0.001$ i.e., the regression model was found to be a good fit for the data. In other words the data was relevant for this study.

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Conclusions;

The relationship between the independent variables and dependent variable was very strong ranging from 0.9 to 0.7 i.e cash dividends had the strongest relationship with financial performance among the tea factories, followed by bond dividends, followed by interim dividend and finally stock dividends.

Cash dividends, bond dividends, interim dividends and stock dividends account for 67.3% of financial performance of the tea factories in Kericho Highlands Region. The independent variables – cash dividends, bond dividends, interim dividends and stock dividends statistically significantly predicted the dependent variable – financial performance, $F = 0.100$, $p < 0.001$ i.e., the regression model was found to be a good fit for the data. In other words the data was relevant for this study. The regression coeficients show cash dividends had the greatest effect on financial performance of the tea factories followed by bond dividends, followed by interim dividends while stock dividends had the least effect on the financial performance of the firms.

Recommendations:

Based on the findings of the study, the researcher made the following recommendations;

The cash dividends policies should be very flexible and easily accessible to every one so that more people can invest in them to propel the finanacial performance of the tea factories and hence the growth of the tea factories in general

The bond dividend policies should be opened and extend to other financial sectors of the economy in order to enhance the performance of the organization and also improve on its financial position for the betterment of the Kenyan ecobomy.

Further the interim dividends should be based on the immediate needs and requirements of the financial postion of the tea factories as well as its share holders so as to make sure the factories are able to raise funds to meeting their immediate and miscellenious needs for the organinational prosperity of the firms.

On the stock dividends, the mamagement and stakeholders shound ensure that there stocks remain competitive in the market to attract more customers and also to boost their sales and general position of the firms in ther capital market.

Recommendation for further studies:

For that the study makes the following recommendations for further studies,

1. Similar studies be done on the banking industry
2. The effect of dividend policy on the general performance of the firms
3. The effect of dividend policy on the competeitive edge of the firms.

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