THE RELATIONSHIP BETWEEN WORKING CAPITAL MANAGEMENT AND DIVIDEND PAYOUT RATIO OF FIRMS LISTED IN NAIROBI SECURITIES EXCHANGE

REUBEN WANJALA BUSHURU

A Research Project Submitted to Graduate School in Partial Fulfillment for the of the Award of the Degree of Masters of Business Administration of Egerton University

EGERTON UNIVERSITY
OCTOBER 2015

DECLARATION AND APPROVAL

Declaration

This research project is my original work and has not been submitted to any other institution of higher learning for award of degree or diploma.

Sign………………… Date………………

Reuben.W. Bushuru

CM 11/00712/12

Approval

This research project has been submitted for examination with my approval as the university supervisor

Sign………………………… Date …………………

MR Kefah Basweti

Department of Accounting Finance and Management Science

Egerton University

DEDICATION

This work is dedicated to the entire family of Mr. John Bushuru for the encouragement. Both morally, spiritually and financially

COPY RIGHT

©2015 Reuben Wanjala Bushuru

ACKNOWLEDGEMENTS

ABSTRACT

The study was set out to establish the relationship between working capital management and dividend payout ratio of listed firms in Nairobi securities exchange (NSE). Several studies in Kenya have explored on working capital management and profitability. No studies have been done on working capital and dividend payout ratio with specific reference to listed firms in Kenya. The objectives of the study were; to determine the relationship between accounts receivables collection period and dividend payout ratio, to establish the relationship between inventory conversion period and dividend payout ratio, to evaluate the relationship between accounts payable period and dividend payout ratio and to examine the relationship between cash conversion cycle and dividend payout ratio. A correlation research design was utilized and the target population was 62 firms listed in Nairobi securities exchange for a period of eight years from (2006-2013). Purposive sampling method was used to systematically select 34 companies. Data collection sheet was used to collect secondary data from published annual reports and financial statements covering the years 2006-2013. Data collected was analyzed using a multiple regression model and Pearson correlation analysis was carried out to determine the relationship between working capital management and dividend payout ratio. Similarly, ANOVA test and independent t-test was used at 95% degree of confidence to determine the level of significance. The data analyzed was summarized and presented using tables for easy interpretation, understanding, reading and discussion. Findings of the study indicated that efficient management of working capital leads to better dividend payout ratio. A negative relationship existed between accounts receivables collection period (-0.079) with dividend payout ratio. Similarly inventory conversion period revealed a negative relationship of (-0.073). Furthermore average payment period revealed a positive relationship of 0.089 with dividend payout ratio. Finally cash conversion cycle indicated a positive relationship of 0.022. The conclusion of the study was that there is a weak positive relationship between working capital management and dividend payout ratio of listed firms in Kenya (r=0.293) however the level of significance was (p=0.000) indicating that there is no relationship between working capital management and dividend payout ratio of listed firms in Kenya. It was recommended that managers of listed companies should increase dividend payments by reducing number of receivable days, decreasing inventory conversion period at reasonable, delaying payments to suppliers and reduction of cash conversion cycle to its minimum and lenders can improve dividend payout ratio by coming up with broad scope of working capital management components.

TABLE OF CONTENTS

LIST OF FIGURES

LIST OF TABLES

LIST OF ABBREVIATIONS

APP   Accounts payable period

ACP   Accounts receivable collection period

ANOVA   Analysis of variance

CCC   Cash conversion cycle

EOQ   Economic order quantity.

EPS   Earnings per share

EPR   Earnings price ratio

DPS   Dividend per share

DR   Debt ratio

DPR   Dividend pay-out ratio

ICP   Inventory conversion period

MM   Modigliani and Miller

NSE   Nairobi securities exchange

WCM   Working capital management

1.1 Background of the Study

The theory of dividend policy is one of the most important theories in finance because it is directly related to shareholders. However, dividend policy is one of the unresolved issues in finance theory. Indeed, there exists no definite explanation on how firms determine their dividend policy (Wanjiku, 2013). In this connection, dividend policy decision is one of the four decisions of financial management because it affects the financial structure, the flow of funds, corporate liquidity and investors' attitudes (Bijendra, 2009). For instance, dividend decisions are important because they determine what funds flow to investors and what funds are retained by the firm for investment. In this regard, managers have to decide whether to pay dividend or not and if they decide to pay dividend, they will face a further question of how much they should pay. Therefore, dividend policy is intended to regulate and guide a firm's management when issuing dividends to shareholders (Wanjiku, 2013).

Dividends are the returns that accrue to shareholders as a result of the money invested in acquiring stocks of a given company. Thus, in maximizing shareholders wealth, both investment decisions and dividend decisions should be given serious attentions simultaneously (Oladipupo and Ibadin 2013). As a consequence, dividend paid has an effect on the liquidity and profitability position of a firm. Additionally, when a firm issues dividends it reduces the amount of liquid cash that can be used to meet the demands of short time creditors and lenders. As a result, it can have an impact on the survival of a firm forcing the firm to an insolvency situation (Pandey, 2010).

Similarly, Hashemijoo et. al (2012) points out that, in corporate finance, one of the most important decisions is concerned with the answering the question, should the profits of firm be distributed to the shareholders as dividend or must it be reinvested in new opportunities and if it must be distributed, what proportion of profit must be paid to shareholder and what proportion must be returned to the business? Thus, for answering this question, managers must consider which dividend policy will lead to maximization of shareholder's wealth.

Subsequently, Mohammad (2013) points out that the best dividend policy is the one that maximizes the company's stock price which leads to maximization of shareholders wealth and also ensures more quick economic growth. Likewise, management's primary goal is

shareholders wealth maximization and this can be achieved by giving the shareholders payment on their investments. This implies that the objective of the finance manager should be to find out an optimal dividend policy that will enhance value of the firm.

Liquidity management is a critical component of every organization. More so the firms listed at the NSE market. This is due to the fact that there is more scrutiny of the financial statements of the listed firms. The aspect of liquidity management becomes very crucial for a firm when deciding on its dividend payout. Firms' earnings provide a firm with relevant cash flow to maintain its liquidity position. Hence afirms management will need to consider the level of earnings to issue out dividends (Wanjiku, 2013)

In this regard, working capital management becomes very important for the success of a business because of its effect on firm's profitability as well on liquidity. Working capital management refers to investment in current assets and current liabilities which are liquidated within one year or less and is therefore crucial for firm's day-to-day operations (Kesimli and Gunay, 2011).

Van Horne and Wachowicz (2004) affirms that excessive levels of current assets may have a negative effect on the firm's profitability whereas a low level of current assets may lead to lower level of liquidity and stock outs resulting in difficulties in maintaining smooth operations. Therefore this study was set out to assess the relationship between working capital management and dividend payout ratio of firms listed in Nairobi securities exchange.

1.2 Statement of the Problem

The main objective of any business firm is to maximize shareholders wealth. However, this objective can be achieved when the company earns sufficient profits, at the same time; preserving liquidity of the firm is also an important objective too. Therefore a firm must adopt a strategy to maintain a balance between these two objectives (Makori and Jagongo, 2013).In this regard, working capital management becomes an important issue during financial decision making since it forms part of investment in asset that requires appropriate financing and also when incurring liabilities (Odhiambo, 2011). However, Rose et al (1996) argues that dividend decision is a major financial decision in the sense that a firm has to choose between distributing profits to the shareholders and ploughing them back into the business. Furthermore, dividend paid has an effect on the liquidity position of a firm. Similarly, Waweru (2012) affirms to the fact that firm's dividend policy decision is very crucial and the way managers go about in

making dividend policy decisions should follow a precise set of guidelines because these decisions will impact on the value of the firm and on the future performance. Thus, Ajanthan, (2013) points out that several theories have been proposed to explain the relevance of dividend policy and whether it affects the firm's value, but there has not been a universal agreement. Conversely, a study by Oladipupo and Ibadin (2013) in Nigeria revealed that working capital management does not matter in dividend policy decision. However several studies in Kenya have explored on working capital management and profitability. No studies have been done on working capital and dividend payout ratio with specific reference to listed firms in Kenya. This study therefore comes in to establish whether there is a relationship between working capital management and dividend payout ratio of firms listed in NSE.

1.3 Main Objective of the Study

The main objective of the study was to establish the relationship between working capital management and dividend payout ratio of firms listed in Nairobi securities exchange.

1.4 Specific Objectives of the Study

i. To determine the relationship between accounts receivable collection period and dividend payout ratio of firms listed in NSE.

ii. To establish the relationship between inventory conversion period and dividend payout ratio of firms listed in NSE.

iii. To evaluate the relationship between accounts payable period and dividend payout ratio of firms listed in NSE.

iv. To examine the relationship between cash conversion cycle and dividend payout ratio of firms listed in NSE

1.5 Research Hypothesis

Ho_1: There is no statistical significant relationship between account receivable collections period and dividend payout ratio of firms listed in Nairobi securities exchange

Ho_2: There is no statistical significant relationship between inventory conversion period and dividend payout ratio of firms listed in Nairobi securities exchange.

Ho_3 There is no statistical significant relationship between accounts payment period and dividend payout ratio of firms listed in Nairobi securities exchange.

Ho_4: There is no statistical significant relationship between cash conversion cycle and

dividend   payout ratio of firms listed in Nairobi securities exchange.

1.6 Justification of the Study

Firms' decisions relating to dividend policy have been a subject of debate in the financial literature. Furthermore, dividend policy is an important policy for managers in all firms because of its effects on liquidity and profitability. However, Managers have to decide whether to pay dividend or not and if they decide to pay dividend, they will face a further question of how much they should pay. A study by Oladipupo and Ibadin (2013) in Nigeria revealed that working capital management does not matter in dividend policy decisions. As a result this study will bridge the knowledge gap between working capital management and dividend payout ratio of firms listed in Nairobi Securities Exchange. More so, this study will provide information to stakeholders concerning the company's performance. The study findings will be of utmost importance to potential investors who will be able to understand, how to manage working capital and in turn increase shareholders wealth. Finally, the results of the study will provide knowledge base upon which further studies and research can be undertaken.

1.7 Scope of the Study

The study covered working capital management and dividend payout ratio of continuously listed firms in the Nairobi Securities Exchange in agriculture, automobile and accessories, commercial and services, construction and allied, energy and petroleum, investment and lastly manufacturing and allied sector for a period of eight (8) years from 2006 to 2013.

1.8 Limitations and Delimitations of the Study

The limitation was that only 34 companies were consistently listed in the NSE on the period of study. The second limitation was that some companies have not submitted the financial statements of the year ended 2014 thus limiting data to the year ending 2013.

On the first limitation, data of 34 companies was enough to conclude on the research problem because it was more than 75% of the sampled companies. On the last limitation, the study made use of audited financial statements that aided the researcher to give a conclusion on the research problem.

1.9 Operational Definitions of Terms

Accounts payable period   The time taken by companies to pay suppliers

Accounts receivables collection period	The time required to change receivables into cash
Cash conversion cycles	The time from the beginning of the production process to the collection of cash from the sale of finished goods
Current assets	Those assets that a firm holds for less than one accounting period
Current liabilities	The claims or obligations which are normally expected to mature for payment within an accounting cycle
Dividend payout ratio	Division of earnings between payments to stock holders and re-investment in the firm
Inventory conversion period	The time required to change materials into finished product and sell the goods
Securities exchange	A market that deals in the exchange of securities issued by publicly quoted companies and the government
Working capital	Refers to both current assets and current liabilities
Working capital management	Ability to control effectively and efficiently the current assets and current liabilities in a manner that provides the firm with maximum return on its assets and minimize payments for its liabilities.

<center>**CHAPTER TWO**</center>

<center>**LITERATURE REVIEW**</center>

2.1 Introduction

This chapter reviewed the various theories in regards to dividends, dividend policies, types of dividends and working capital management. It also explored the empirical studies that had been carried out by various researchers and the conceptual framework of the study variables.

2.2 Dividend Theories

Dividend theories are propositions put in place to explain the rationale and major arguments relating to payment of dividends by firms. However, firms are often torn in between paying dividends or reinvesting their profits on the business. As a result, those firms which pay dividends do not have a stationary formula of determining the dividend payout ratio (miller et al 1961)

Certain theories consider the dividend decision as relevant to the value of the firm. These theories include, bird in-hand theory, tax differential theory, signalling theory, the agency theory and residual theory. In contrast other theories argue that dividends are irrelevant these theories include dividend irrelevant and clientele effect theory (Rose et al, 1996)

2.2 .1 Dividend Irrelevance Theory

This theory was developed by Modigliani and miller in 1961.Dividend irrelevance theory observes that dividend policy is irrelevant and that the value of the firm is determined by its basic earnings power and its cost of capital. It argues that, dividend paid has no effect on either the value of a firm. Miller and Modigliani (1961) argue that under certain simplifying assumptions, the dividend decision does not affect the value of a firm and therefore, irrelevant. Modigliani and Miller demonstrated that under a particular set of assumptions when a firm pays high dividends then it must issue new stocks. As a result, the value of the firm given out to the new investors is exactly equal to the dividend paid. MM argued further that investors are able to replicate any dividends pattern that the firm might pay. Furthermore, if the dividends are lower than desired, investors can sell part of their shares to obtain the desired cash distribution. Subsequently, if dividends are higher than required, they can use the extra money to purchase additional shares in the company. Since investors can manufacture homemade dividends then dividend policy is irrelevant (pandey, 2010)

<center>6</center>

According to Miller and Modigliani (1961) dividend policy is a passive residue determined by the firm's need for investment funds. Additionally, it does not matter how the earnings are divided between dividend payment to shareholders and retention. Therefore the optimal dividend policy does not exist since investment decision is a mere detail without any effect. MM assumed that capital markets are perfect whereby no buyers or sellers of securities is large enough to have a significant influence on ruling share prices; that investors are rational meaning that they always prefer stocks of higher returns and they are risk averse; and that there is perfect certainty hence there is complete assurance on the part of the investors as to future investment programs and profits of every corporation (pandey, 2010)

2.2.2 Clientele Effect Theory

This theory states that different groups of shareholders have different preferences for dividends depending on their level of income from other sources. This implies that different shareholders have different levels of income. For instance, low income earners prefer high dividends to meet their daily consumption while high income earners prefer low dividends to avoid payment of more tax (Petit, 1977).

Therefore, when a firm sets a dividend policy, there'll be shifting of investors into and out of the firm until equilibrium is achieved. In this regard, low income shareholders will shift to firms paying high dividends and high income shareholders to firms paying low dividends. As a result, at equilibrium, dividend policy will be consistent with clientele of shareholders a firm has. Therefore, dividend decisions at equilibrium are irrelevant since they cannot cause any shifting of investors (Pandey, 2010)

2.2.3 Bird in-Hand Theory

This theory was developed by John Lintner in 1956 and Myron Gordon in 1963.Bird in hand theory explains why a firm should pay dividends to its shareholders. It argues that shareholders are risk averse and prefer certainty. However, dividend payments are more certain than capital gains which rely on demand and supply forces to determine share prices Therefore, one bird in hand is better than two birds in the bush. (Lintner, 1962).

According to Gordon (1963), bird in hand theory suggests that shareholders prefer cash dividends and when making dividend payouts, the firm gets a higher rating from rating agencies as compared to a firm not making any dividend payout. Similarly, firms making dividend payouts tend to have an increase in the value of the firm.

Furthermore, Amidu (2007) points out that, bird in hand theory proposes a relationship that exists between firm value and dividend payout. Moreover, dividends are less risky than capital gains since they are more certain, investors would prefer dividends to capital gains because dividends are supposedly less risky than capital gains, finally, firms should set a high dividend payout ratio and offer a high dividend yield to maximize stock price.

2.2.4 Tax Differential Theory
This theory was advanced by Litzenberger and Ramaswamy in 1979. Tax differential theory, argued that tax rate on dividends is higher than tax rate on capital gains. Therefore, a firm that pays high dividends has lower value since shareholders pay more tax on dividends. Thus, dividend decisions are relevant and the lower the dividend the higher the value of the firm and vice versa.

According to Brigham and Ehrhardt (2011), this theory states that shareholders prefer capital gains to dividends. The preference of capital gains is occasioned by the effect of taxes on capital gains compared to tax effect on dividends. Individual investors pay higher ordinary income taxes on dividends but lower tax rates on long term capital gains

2.2.5 Signaling Theory
This theory was developed by Ross in 1977 signalling theory argued that in an inefficient market; management can use dividend policy to signal important information to the market which is only known to them. Thus, if the management pays high dividends, it signals high expected profits in future to maintain the high dividend level. This would increase the share price (value) of the firm and vice versa (Brigham and Ehrhardt, 2011)

However, MM suggested that the change in share price following the change in dividend amount is due to informational content of dividend policy rather than dividend policy itself. Therefore, dividends are irrelevant if information can be given to the market to all players (pandey, 2010)

2.2.6 Agency Theory
Agency theory implies that firms that adopt high dividend payout will have a high value. As a remedy, dividend policy can be used to resolve the agency problem by reducing the agency cost between owner managers and outside owners of the firm. Thus, payment of dividends solves the agency problem since management would have to ensure continued profitability of the firm so as to maintain steady dividends. Additionally, steady dividends also remove excess cash from the hands of the management which would have been misused in the generation of

income. Furthermore; payment of dividends thus would force management to enhance the future financial performance of firm. Thus, firms that pay more dividends outperform their counterparts who do not pay in terms of financial performance in the subsequent periods (Jensen, 1986)

2.2.7 Residual Theory
Under this theory, a firm will pay dividends from residual earnings remaining after all suitable projects with positive NPV have been finalized. It assumes that retained earnings are the best sources of long-term capital since it is readily available and cheap. This is because no floatation costs are included in their use to finance new investment projects. Therefore, the first claim on earnings after tax and preference dividend will be a reserve for financing investments. According to this theory, dividend policy is irrelevant and treated as a passive variable. It will not affect the value of the firm. However, investment decisions will affect the value of the firm (Pandey, 2010).

Residual theory affirms that, the first priority is given to the profitable investment opportunities. It argues that if there are profitable opportunities, the firms invest first and residual income is distributed to shareholders. Residual theory suggests that the dividend paid by the firm should be the amount left over after all acceptable investment opportunities have been under taken (Bijendra, 2009).

On the other hand, the residual theory of dividend hypothesizes that the amount of dividends should not be the focus of the company. However, the amount of earnings retained, depend on the number and size of acceptable capital budgeting projects and the amount of earnings available to finance the equity portion of the funds need to pay for these projects (kioko,2011)

2.3 Dividend Policies
Dividend policy is based on several issues. How much dividend should a firm distribute to shareholders? When to pay dividends to shareholders? Why dividends are paid? And how to pay dividends? Common dividend policies are the constant payout ratio, constant amount per share, constant dividend per share plus extra and residual dividend policy. (Miller & Modigliani, 1961)

2.3.1 Constant Payout Ratio
According to pandey (2010), Constant payout ratio is where the firm pays a fixed dividend rate. The dividend per share would therefore fluctuate as the earnings per share changes. Dividends

are directly dependent on the firm's earnings ability and if no profits are made, no dividends are paid. The problem with the policy is that if the firm's earnings drop or if a loss occurs in a given period, the dividends may be low or even nonexistent and would cause uncertainty to investors.

Similarly, Mudida and Ngene (2010) points out that constant pay-out policy indicates the percentage of each shilling earned that is distributed to owners in the form of cash. More so, firm establishes that a certain percentage of earnings that is paid to owners in each dividend period. However the challenge with this policy is that if the firm's earnings drop a loss occurs in a given period the dividend may be low or non-existent.

2.3.2 Constant Amount per Share

Constant amount per share (fixed dividend per share) denotes that dividend per share is fixed in amount irrespective of the earnings levels. This creates certainty and is therefore preferred by shareholders who have a high reliance on dividend income. It protects the firm from periods of low earnings by fixing dividend per share at a low level (pandey, 2010)

Similarly, Bijendra (2009), Constant amount per share is based on the payment of a fixed rupee dividend in each period. A number of companies follow the policy of paying fixed amount per share as dividend every period, without considering the fluctuation in the earnings of the company. The policy does not imply that the dividend per share or dividend rate will never be increased. When the company reaches new level of earnings and expects to maintain it the annual dividend per share may be increased. Investors who have dividends as the only source of their income prefer the constant dividend policy.

2.3.3 Residual Dividend Policy

Pandey (2010) notes that Residual dividend policy is a policy in which the dividend payment is set equal to the actual earnings available less the amount of retained earnings necessary to finance the firm's optimal capital budget. Companies using the residual dividend policy choose to rely on internally generated equity to finance any new projects.

Residual dividend policy is based on the assumption that investors prefer to have a firm retain and reinvest earnings rather than pay out them in dividends. Under this policy, a firm pays dividend only after meeting its investment need at desired debt - equity ratio. If the net income exceeds the portion of equity financing, then the excess of net income over equity need is paid as dividend. The company does not pay any dividend when net income is less than or equal to

equity need for financing the investment proposals. In case, net income is not sufficient to meet equity need, the company should raise deficit amount by external equity (Rose et al 1996).

2.3.4 Low Regular plus Extra Policy

Low regular plus extra policy is whereby constant dividend per share is paid every year. However, extra dividends are paid in years of supernormal earnings. It gives the firm flexibility to increase dividends when earnings are high and participate in supernormal earnings. The extra dividends are given in such a way that it is not perceived as a commitment by the firm to continue the extra dividend in the future (pandey, 2010)

2.4 Forms of Paying Dividends

According Mudida and Ngene (2010) dividend can be in the form of cash dividends, stock dividends, stock repurchase, property dividend or stock split. Cash dividend is the dividend, which is distributed to shareholders in cash. Due to cash dividend, total assets as well as net worth decrease as cash and retained earnings decrease. When a corporation declares a cash dividend on its stock, its retained earnings are decreased and its current liabilities are increased. The net result of the declaration and payment of the dividend is that the corporation's assets and stockholders' equity have decreased (Rose et al, 1996).

Stock dividend refers to the dividends paid to the existing stockholders in the form of additional shares of common stock. It represents a distribution of additional shares to existing shareholder. Stock dividend increases the number of outstanding shares of the firm's stock. It involves simply an accounting entry transfer from retained earnings account to the common stock and paid in capital accounts. Retained earnings decrease, common stock and paid in capital increase. The stock dividend does not affect the equity position of stockholders (Rose et al, 1996)

Van Horne (2005) notes that a stock dividend is the payment of additional shares of common stock to share holders. Furthermore, stock dividends is employed to conserve cash and instead of increasing the cash dividends as earnings rise a company may desire to retain a greater portion of its earnings and declare a modest stock dividends. On the other hand, Mudida and Ngene (2010) observes that in stock dividends the shareholders portion of ownership in the firm remains the same as long as the firms earnings remains unchanged.

A stock repurchase is a transaction in which a firm buys back shares of its own stock thereby decreasing shares outstanding, increasing earnings per share, and increasing the stock price.

Other companies opt for a stock repurchase program rather than paying cash dividends. A stock repurchase is a valid alternative to paying cash dividends. The repurchase is made through public tender offer where the company offers to buy up to a set number of shares at a fixed price. This fixed price is set at what the firm thinks the final resulting price will be after the repurchase. Since there will be fewer shares outstanding after the repurchase, the shares that are not repurchased will increase in value. A stock repurchase also is a means of converting earnings to a capital gain. Since the repurchase is at a higher price, those selling realize a capital gain while those who don't sell see their share prices going up (Brigham and Houston, 2004).

Van-Horne (2005) defines a stock split as an increase in number of shares outstanding by reducing the par value of stock. A stock split is a method to reduce the marker price per share by giving certain number of share for one old share. Due to stock split, number of outstanding shares increase and par value and marker price of the stock decrease. A stock split affects only the par value, market value and the number of outstanding shares. However, net worth of the company remains unaltered. With a stock split, shareholder's equity account does not change, but the par value per share changes. The earnings per share will be diluted and marker price per share fall proportionately with a stock split. But, the total value of the holdings of a shareholder remains unaffected by a stock split.

Conversely, Van-Horne (2005) defines a reverse split as a process where a firm consolidates its shares. Consequently, reverse split is employed to increase the market price per share when the stock is considered to be selling at too low price. Likewise a reverse split is an attempt to stay listed on a major security exchange because the stock price may have fallen so low that it risks being delisted.

A property dividend can either include shares of a subsidiary company or physical assets such as inventories that the company holds. The dividend is recorded at the market value of the asset provided.Property dividends can be distributed if the parent company does not wish to dilute its current share position or if it does not have enough cash on hand to distribute healthy payments (Van Horne, 2005).

2.4.1 Measures of Dividend Policy
Dividend policy ratios measure how much a company pays out in dividends relative to its earnings and market value of its shares. These ratios provide insights into the dividend policy

of a company. They compare the dividends to the earnings to measure how much of its earnings a company is paying out in dividends. They also compare the dividends to share prices to see how much cash flow the investors get for their investments in the company's shares. The investors usually look for high dividend policy ratios therefore the companies should manage their dividend policies carefully. Companies need to manage their dividend policy ratios carefully to maximize the shareholder value. Market value of shares is greatly affected by the dividend policy ratios. Poor dividend policy ratios can result in fall of market value of shares and thus loss of shareholder value. On the other hand good dividend policy ratios can increase the prices of shares and shareholder value. According to Bitok et. al (2010) the most observable features of corporate dividend policy are dividend yield, dividend payout ratio, price earnings ratio, and retention ratio.

Dividend yield is defined as the ratio of current cash dividends to the market price of the stock. The dividend yield can only be calculated for listed firms as the share price is required. However, the higher the share price, the lower the dividends yield. Likewise Mudida and Ngene (2010) affirm that dividend yield indicates the return that investors are obtaining on their investment in the form of dividends. Furthermore, dividend yield to ordinary shareholders depends on the market price originally for the share and is calculated by dividing dividends received by the market price originally paid for shares.

According to van Horne (2005) dividend yield is calculated as the common dividend per share divided by the market price per share. This is a particularly an important valuation measure for investors seeking regular income. Investors who depend on income from their investments include retired persons and well as pension and mutual funds, which invest with the primary objective of maximizing the income return. These investors like to see a higher dividend yield. Typically, higher dividend yields are associated with more stable and mature companies such as utilities. Growth -oriented companies tend to pay lower dividends such as at a higher multiple, and as a result, produce lower dividend yields.

Dividend payout ratio is the ratio of dividends per share to the earnings per share. This ratio indicates how much of the profit is distributed as dividend to shareholders. The higher the dividend payout ratio, the more attractive the share is to shareholders. Dividend payout ratio varies among companies. It shows the proportion of earnings that was paid out as dividends and how much was retained (Bitok et al, 2010)

Dividend payout ratio determines the amount of earnings that can be retained in the firm as a source of financing. Similarly, retaining a great amount implies that fewer shillings will be available for current dividend payments. Thus, a vital aspect of dividend policy then is for the firm to determine the appropriate allocation of profits between dividend payments and addition to the company's retained earnings (Mudida and Ngene, 2010)

Price earnings ratio (P.E) is the most widely used valuation ratio. It indicates the market price of a share in terms of earnings. It is the shilling amount an investor has to pay for each shilling of earnings made by the firm for the ordinary shareholder. The earnings per share (EPS) are calculated as the net income available for ordinary shareholders divided by the number of issued shares. In addition it shows the market confidence in accompany by taking the current market share price in relation to the most recent EPS (Pandey 2010).

Retention ratio refers to the percentage of net income that is retained to grow the business, rather than being paid out as dividends. It is the opposite of the payout ratio, which measures the percentage of earnings paid out to shareholders as dividends. Retention Ratio is opposite to dividend pay-out ratio and is calculated by subtracting Total Dividend from Total Earnings and then dividing the resulting amount by Earnings. This ratio was previously ignored by the researchers and they used either dividend payout ratio or dividend yield ratio in their studies for explaining the variation in stock price (Brigham and Houston, 2004).

2.5 Working Capital Management

Working capital is the difference between current assets and current liabilities. Firms employ both the current assets and liabilities in their day to day operations to generate economic profit for the interests of all stakeholders. Shareholders are usually interested in the returns on their investments. The returns on shareholders' investments take the form of dividend payments. An organization will be talking about dividend only when it has made profit and cash is readily available. This is why it is important that managers spend extra efforts and time in managing working capital, so as to ensure a balance between liquidity and profitability (Oladipupo and Okafor 2013).

Working capital management is considered to be a vital issue in a firm's overall financial management. Working capital management has both liquidity and profitability insinuations. Favourable working capital management can be achieved by the finance manager of a firm, by trading off between liquidity and profitability in a precise way. Efficiency of working capital

management is based on the principle of speeding up collections as quickly as possible and slowing down disbursements as slowly as possible (Bhaskar, 2012)

Working capital management involves managing cash, receivables, inventories and payables. In cash management, the firm ensures that cash is available to meet its running expenses and reduces the cost of cash holding. Receivables management involves adopting proper credit policy to the firm's customers. Proper credit policy is expected to attract customers and boost sales. Although such a policy would have a positive impact on profit and return on capital, it affects the firm's cash flows. Hence, corporate management needs to strike a balance between boosting sales and securing necessary cash flows. Inventories management is achieved by maintaining a certain level of inventory that allows the flow of production and reduces the cost of raw materials. Costs, risks, liquidity and flexibility are some of the factors that are considered when choosing accounts payable (kamal et al. 2013)

2.5.1 Cash Management Practices

Cash management refers to optimizing the benefit and cost associated with holding cash. The objective of cash management is best achieved by speeding up the Working Capital cycle, particularly the collection process and investing surplus cash in short term assets in most profitable avenues. Cash management is the process of planning and controlling cash flows into and out of the business, cash flows within the business, and cash balances held by a business at a point in time (Pandey, 2010).

Cash management deals with identify the cash balance which allows for the business to meet day to day expenses, but reduces cash holding costs. Managing cash collections and receivables to enhance the efficiency of cash management, collections and disbursements require speedy collection of receivables from customers and slowing disbursements as well as developing strategies for handling the excess cash balance. Cash and marketable securities is the most liquid of all the current assets. Unless cash is invested, it does not earn an explicit rate of return (Brigham and Houston, 2004).

According to Ehrhardt and Brigham, (2008) the goal of the firm should be to shorten the cash conversion cycle as much as possible without hurting operations. This will increase a firm's value because the shorter a firm's conversion cycle, the lower the required net operating working capital and the higher the resulting free cash flows. Cash conversion cycle can be shortened by reducing the inventory conversion period by processing and selling goods as soon as possible, by reducing the receivables collection period by speeding up collection or by

lengthening the payables deferral period by slowing down a firm's own payment. These actions should only be taken without increasing costs or depressing sales.

2. 5.1.1 Baumol Model

Baumol Model developed by Baumol (1952) is a cash management approach that aids in determining the optimum amount of cash for a company to hold under conditions of certainty. The objective is to minimize the sum of the fixed costs of transactions and the opportunity cost of holding cash balances that do not yield a return.

This is similar to the economic order quantity (EOQ) model used in inventory management. Baumol Model of cash management assumes the firm is able to forecast the cash needs with certainty, the firm's cash payments occurs uniformly over a period of time, the opportunity cost of holding the cash is known and it does not change over time, the firm will incur the same transaction cost whenever it converts securities to cash.

2.5.1.2 The Miller Orr Model

The Miller-Orr model developed by Miller and Orr (1966) assumes that net cash flows are normally distributed with a zero value of mean and standard deviation. The model provides for two control limits- the upper control limit and the lower control limit as well as a return point. If the firm's cash flows changes randomly and hit the upper limit, then it takes appropriate corrective action to come back to a normal level of cash balance and when the firm's cash flows decreases below the lower limit, it also takes the appropriate corrective control measures .

A firm will sale marketable securities to return to the correct cash levels and will purchase marketable securities if above the required limit. Firms set lower limits depending on how much risk of cash shortfall the firm is willing to tolerate. The return point is the cube root of the square root of three multiply by conversion cost multiply by variance of daily net cash flows divided by four times daily opportunity cost.

2.5.2 Inventory Management

The success of any business unit depends on the extent to which inventories are efficiently managed. Inventory is an asset to the organization like other components of current assets. Inventory constitutes a very significant part of working capital or current assets in an organization. It is essential to control inventories as these are significant elements in the costing process constituting sometimes more than 60% of the current assets. Inventory holding is

desirable because it meets several objectives and needs but an excessive inventory is undesirable because it costs a lot to firms (Waithaka, 2012)

Inventory comprises goods held for resale, goods in the process of production, or goods used as raw materials in the production process. A variety of motives are argued to exist for the holding of inventory, viz. contractual, speculative, precautionary and transactions motives, with the advent of just-in-time the emphasis has changed substantially focusing on developing good supplier relations, logistics and delivery systems so as to minimize the investment in inventory. Inventory management is essential to avoid over investment and under investment in inventories and provide the right quantity of goods of right quality at proper time and at proper value is equally essential (Murega, 2013)

2.5.2.1 Economic Order Quantity Model

This inventory management model was developed by Harris (1923) but Wilson (1940), a consultant who applied it extensively is credited for his in-depth analysis. This classical inventory management model calculates an optimum order size by balancing the costs of holding inventory against the costs of ordering fresh supplies. This optimum order size is the basis of a minimum cost procurement policy.

The economic order quantity model assumes that, for the period under consideration costs and demand are constant and known with certainty. If we assume a constant demand for inventory, holding costs will increase as average inventory levels and order quantity increase, while ordering costs will decrease as order quantity increases and the number of orders falls. The total cost is the sum of the annual holding cost and the annual ordering cost. This inventory management technique is for determining an items optimal order quantity, which is one that minimizes the total of its order and carrying cost. It helps management to lower total cost of inventory (Gitman, 2000)

2.5.2.2 Just-In-Time Theory

Just-In-Time (JIT) is a system of logistics, developed in Japan, in which materials or parts are ordered and delivered just before they are needed. The ordering and delivery components are essential for a well-functioning JIT system. Ordering materials or parts just before they are needed requires a firm to process and convey production orders through a communication system to various units within the firm or suppliers outside the firm. JIT requires speedy and timely delivery of materials or parts once ordered (Gitman, 2000).

Keane and Feinberg, (2007) observes that one of the main goals of JIT is to eliminate all inventories in the production process, as inventories are viewed as a source of waste and inefficiency. When this is achieved, two benefits accrue. First, eliminating inventories requires a firm to maintain its ordering and delivery system to meet production orders which means a firm attains a high degree of flexibility in its operations. In risky selling environment, flexibility allows a firm to respond to all fluctuations in demand without being constrained by inventories. Secondly, eliminating inventories reduces a firm's inventory carrying costs. A firm does not have to pay for warehouse space to store its inventory, for example. Reduced inventory carrying costs allow a firm to charge lower prices for its product, thereby increasing demand.

2.5.3 Receivables Management

According to katiwa, (2012) debtor management requires that companies should make a trade-off between acquiring customers and minimizing the amount of bad debts. When entering into deals, contracts that stipulate terms and conditions should be put in place. This makes payments of what is owed to be enforceable by the law. Collection of debts should be done at the earliest time possible. This time is defined by the average collection period. This is the average period that a firm takes to collect money owed to it by the debtors. A company which gives one month credit should collect its debt within 45 days. In order to increase the debt collection efficiency, authors and experts stress on the importance of developing good communication with the customers. This puts one on the priority list of the customer when making the payments.

 Accounts receivable management refers to the determination of the optimal level of debtors an organization should hold. It involves a cost benefit analysis of selling on credit. It involves evaluating the credit policies of an organization with a view of selecting and implementing a policy that yields the maximum benefits to a firm. A firm selling on credit terms increases it turnover therefore increases it profits, however there are costs associated with the credit sales. A trade off should therefore be made between the benefits of credit sales and the cost associates with such credit sales. An organization should carry out a cost benefit analysis of either selling in cash or on credit. Such a decision can only be done after evaluating the credit policy of the firm. Any policy adopted should be the one which leads to a lower cost associated with credit sales (Kimeli, 2012).

2.5 3.1 Management of Accounts Receivables

Two commonly used means of obtaining short term financing with accounts receivable are pledging accounts receivable and factoring accounts receivable. Actually, only a pledging of accounts receivable creates a secured short-term loan .Factoring entails the sale of accounts receivable at a discount (Gitman, 2000)

Gitman (2000) observes that pledging of accounts receivable is often used to secure a short term loan. Because accounts receivables are normally quite liquid, they are an attractive form of short term loan collateral. Both commercial banks and commercial finance companies extend loans against pledges of accounts receivables. When a firm requests a loan against accounts receivables, the lender first evaluates the firm's accounts receivable to determine their desirability as collateral.

On the other hand, Eugene and Gapsenski (1988) affirms that pledging of accounts receivables is characterized by the fact that the lender not only has a claim against the receivables but also has recourse to the borrower. In this connection, if the person or firm has claim against the receivables but does not pay, the selling firm must take the loss. Therefore, the risk of default on accounts receivable pledged remains with the borrower.

Similarly, Eugene and Gapsenski (1988) opine that factoring of accounts receivable involves the purchase of accounts receivables by the lender, generally without recourse to the borrower. Under factoring the buyer of the goods is typically notified to the transfer and is asked to make payment directly to the financial institution. Since factoring firm assumes the risk of default on bad debts it must do a credit check.

However Gitman (2000) affirms that factoring of accounts receivable involves outright sale at a discount to a financial institution. A factor is a financial institution that specializes in purchasing accounts receivable from businesses. Factoring of accounts receivable is similar to borrowing with accounts receivable as collateral.

2.5.4 Accounts Payable Management

Accounts payable includes trade credit and accrued expenses which together provide finance to the operations of a business on an ongoing basis. But account payable represents the current liabilities of the working capital management. Credit period of account payable shows how many days are taken to pay their suppliers. If payment period is increased, it may result in loss

of good suppliers. Therefore, firms should keep better relations with their supplies and try to keep optimal working capital management (Bhattacharya, 2003)

The general guidelines for optimizing the managing of account payables involve the timing of payments. Companies should try prolonging the time of payment as long as possible as they can use the advantage of their suppliers financing their investments until payment has been made. Another argument for prolonging the time for payment is that the producing companies, for example, need some time to convert their purchased raw material into products they can get sold and get cash in return (Rimo, and Panbunyuen,2010).

2.6 Measures of Working capital Management

Working capital management is the combination of policies and techniques for management of cash, cash equivalent, inventory, debtors and short term financing. This management should be done with an aim of ensuring that the business returns are acceptable. Cash conversion cycle, inventory management, debtor management and accounts payable management are the areas of concern which encompass the aspect of working capital management. Prudent management of the mentioned aspects ensures that a business entity has enough cash flows to operate, to service long term debts and maturing short term debts and to meet operational expenses (Brigham and Ehrhardt, 2008).

Cash conversion cycle is the time span between the expenditure for the purchases of raw materials and the collection of sales of finished goods. In addition, a long cash conversion cycle might increase profitability because it leads to higher sales. Similarly, corporate profitability might decrease with the cash conversion cycle, if the costs of higher investment in working capital rise faster than the benefits of holding more inventories or granting more trade credit to customers (Gill et al, 2010)

Subsequently, by applying the cash conversion cycle, managers can keep track of how effective their working capital is managed. Indeed, by calculating the average time it takes for capital to travel between the start and finishing point of the cash conversion cycle managers can estimate the approximate time it takes to release capital that is tied up in the short-term assets. This is arithmetically determined by summing up the receivables conversion period and the inventory conversion period then subtracting the payables conversion period (van-Horne and Wachowicz 2010).

The receivables conversion period, which is an important element of the cycle, is the length of time that a firm needs to collect cash from a credit sale. This is calculated by dividing account receivables by credit sales and multiplying the result by 360. Average collection period measures the number of days on average that customers take to pay invoices. It is an index of the relationship between trade receivables and net sales achieved over one year. A higher ratio can specify a customer base with credit problems or a firm that is lacking in its collections activity. A low ratio, on the other hand, may designate the firm's credit policy is too rigorous, which may be hindering sales (Marco, 2014)

The inventory conversion period is the length of time needed by the firm in order to acquire and sell inventory. It is calculated by dividing inventory by sales and multiplying the result by 360. The average number of day's inventories represents the period that inventories are held by the companies before they are sold. In order to help shorten the cash conversion cycle, a lower number of days are better. The average amount of inventory is received by taking the sum of the beginning and ending balance of inventory for a year, and divide with two, to get the average. The average amount of inventory is then divided with the cost of goods sold to see how big part of cost goods sold that comes from the inventory. In order to get the outcome of the cash conversion cycle in days the amount given is multiplied with the average amount of days a year, 365 (Rimo, and Panbunyuen, 2010).

Accounts payable period measures the average number of days a firm takes to pay its suppliers and it provides one measure of how long a business holds onto its cash. Having a greater payables conversion period may indicate the firm's aptitude to delay payment and preserve cash. This could arise from better terms with vendors, Makori and Jagongo (2013) observes that the longer the average payable period, the better the profitability because this could be due to good name created by suppliers and suppliers will not interrupt supplies to the firm which in turn leads to smooth operation during the year and ends up with better profitability. On the other hand, Mathuva (2010) observes a positive significant relationship between average payment period and profitability.

The current ratio measures the short term solvency or liquidity; it shows the extent to which the claims of short term creditors are covered by assets. The current ratio is essentially looking at the working capital of the company. Effective management of working capital ensures the organization is running efficiently. This will eventually result in increased profitability and positive cash flows. Effective management of working capital involves low investments in non

productive assets like trade receivables, inventory and current bank balances. Also maximum use of free credit facilities like trade payables ensures efficient management of working capital (Brigham and Houston, 2004).

A high current ratio indicates that a firm is holding a large level of current assets relative to its current liabilities. This indicates that the firm is relatively solvent, in that it is likely to raise more cash in the next year from its assets than it will have to pay out in its liabilities. However, a current ratio which is too high can indicate that the firm is not being efficient in managing its current assets, such as not selling its inventory or not collecting its debts from customers. In general, a current ratio of 1 is taken as an indication that a firm is relatively solvent, however this can depend on the industry (Brigham and Ehrhardt, 2008).

2.7 Relationship Between working Capital management and Dividend Payout Ratio

Working capital, which is the difference between current assets and current liabilities, is a connecting rod that affects the liquidity and profitability of any firm. However there is a trade-off between liquidity and profitability of a firm. A firm needs profitability to achieve growth and success. A firm also requires some measures of liquidity to avert insolvency and liquidation problem (Oladipupo and Ibadin, 2013).

On the other hand, working capital management involves managing the relationship between a firm's short-term assets and its short-term liabilities. The goal of working capital management is to ensure that the firm is able to continue its operations and that it has sufficient cash flow to satisfy both maturing short-term debt and upcoming operational expenses. A company can be endowed with assets and profitability but short of liquidity if its assets cannot readily be converted into cash. Positive working capital is required to ensure that a firm is able to continue its operations and that it has sufficient funds to satisfy both maturing short-term debt and upcoming operational expenses (Afza & Nazir, 2009).

Similarly, to meet up with dividend demand of shareholders firms must liquid. Shareholders are usually interested in the returns on their investments. The returns on shareholders' investments take the form of dividend payments. An organization will be talking about dividend only when it has made profit and cash is readily available. This is why it is important that managers spend extra efforts and time in managing working capital, so as to ensure a balance between liquidity and profitability (Oladipupo and Okafor 2013).

However, firms are often torn in between paying dividends or reinvesting their profits on the business. As a result, those firms which pay dividends do not appear to have a stationary formula of determining the dividend payout ratio. In this regard, there are conflicting opinions regarding the impact of dividends on the valuation of a firm. According to one school of thought, dividends are irrelevant on the fact that amount of dividends paid has no effect on the valuation of a firm. Conversely, certain theories consider the dividend decision as relevant to the value of the firm (Rose et al, 1996)

2.8 Empirical Studies

Habib et al (2012) studied dividend policy and share price volatility in Pakistan. The main objective of the study was to examine the relationship between dividend policy and share price volatility in Pakistan. Correlation research design was used in the study. Dividend policy was taken as the independent variable while share price volatility was used as the dependent variable. Dividend policy was measured by dividend payout and dividend yield and share price volatility by share price, controlling variables were size, debt and growth. Cross sectional regression analysis was used to measure the share price with these controlling variables. The findings of this study were that payout ratio and price volatility is significantly positively related. The size and debt are negatively related with share price volatility.

Similarly, Khan and khan (2011) conducted research on dividend payout policy and its effect on stock prices of companies listed at Karachi Stock Exchange for a period of 10 years from 2001 to 2010. The purpose of the study was to determine the factors of dividend payout policy that affect the stock prices. Fixed and random effect research design was applied on 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. Dividend payout policy was used as the independent variable while stock prices as dependent variable. In this regard, the results of this study showed that stock dividend, earnings per share, profit after tax, and return on equity has positive effect on stock prices and retention ratio has negative effect on stock prices. Finally, the study noted that dividend policy has significant positive effect on stock prices.

In another study, Amidu (2007) examined the effects of dividend policy on firm performance in Ghana Stock Exchange. Additionally, dividend policy was the independent variable while firm performance dependent variable. Descriptive research design was utilized in the study. Regression analysis was carried out to examine the nature of the relationship. The results of

the study revealed a positive and significant relationship between return on assets, return on equity, growth in sales and dividend policy. The results also showed a statistically significant relationship between profitability and dividend payout ratio. Finally, the study noted that dividend policy affects performance. Thus study supported the second school of thought that dividend policy is relevant to the performance of firms

On the other hand, Ajanthan (2013) researched on the relationship between dividend payout and firm profitability of listed hotels and restaurant companies in Sri-Lanka Colombo Stock Exchange. The main aim of the study was to find out the relationship between dividend payout and firm profitability. Correlation research design was utilized in the study. Dividend payout was taken as independent variable whereas firm profitability was used as dependent variable. Variables in the study were dividend payout, net profit and revenue. Regression and correlation analysis was carried out to establish the relationship between dividend payout and firm profitability. The findings indicated that dividend payout is positively correlated with firm performance.

Uwalomwa et al (2012) assessed the relationship between the financial performance and dividend payout among listed firms' in Nigeria. Judgmental sampling research design was utilized in the study. The study looked at the relationship between ownership structure, size of firms and the dividend payouts. The annual reports for the period 2006-2010 were utilized as the main source of data collection for the 50 sampled firms. Financial performance was taken as independent variable and dividend payout as dependent variable. Regression analysis was employed for analyzing the data collected. The study revealed that there is a significant positive association between the performance of firms and the dividend payout. The study also revealed that ownership structure and firm's size has a significant impact of the dividend payout.

Khalid et al (2010) did a study on dividend policy and stock price volatility in United Kingdom. The objective of the study was to examine the relationship between dividend policy and the volatility of stock price. Correlation research design was used in the study. Dividend policy was taken as the independent variable while stock price volatility was used as the dependent variable. Regression analysis was used as the research methodology. The study revealed that there is a significant negative relationship between the payout ratio of a firm and the volatility of its stock price and a negative relationship between dividend yield and the volatility of stock price.

Jecheche (2013) conducted a study to determine the impact of dividend policy and stock price volatility in Zimbabwe. A sample of 60 companies listed in Zimbabwe Stock Exchange for a period of ten years from 2001 to 2011 was selected. Across sectional regression analysis research design was used in the study. Stock Price volatility was taken as dependent variable and dividend payout as independent variables. The empirical estimation was based on a cross sectional regression analysis of the relationship between stock price volatility and dividend policy after controlling for firm size, earning volatility, leverage and asset growth. The study found that both the dividend policy measures had a significant positive impact on the share price volatility.

Rashid and Rahman (2006) investigated the relationship between dividend policy and share price volatility in Bangladeshi. Correlation research design was used in the study. Stock Price volatility was taken as dependent variable and dividend payout, dividend yield and earning volatility as independent variables. Pearson's correlation was used in data analysis. The results of the study indicated that there is significant negative correlation between dividend payout and price volatility.

Bitok (2004), examined the effects of dividend policy on the value of listed firms in Kenya for a six year period from 1998 to 2003. The population of interest in the study consisted of all firms quoted at NSE. Dividend policy was taken as independent variable and the value of firms as dependent variable. The data collected was analyzed using simple linear regression and correlation analysis. The results of the study revealed that there is a weak negative relationship between dividend policy and the value of firms quoted at the Nairobi securities exchange.

Muchendu (2003) did a study on the determinants of dividends of publicly quoted companies in Kenya. The duration of the study was ten years from 1992-2001.The data used in this study was taken from companies listed in Nairobi securities exchange. The dependent variable of the study was dividend of companies; independent variables were liquidity, networking capital, market price and net income. Correlation research design was used in the study. The data collected was analyzed using regression analysis. However; the study indicated that working capital, net profit and market price are significant factors in the determination of dividends. Furthermore, the study revealed that companies listed at Nairobi securities exchange (NSE) maintained a constant dividend payout over the years.

Chebii (2005) examined the relationship between capital structure and dividend payout of quoted companies. The objective of the study was to find out the role of capital structure in

dividend payouts, whether high level of debt in the capital structure contributes to payment or non-payment of dividends. Capital structure was taken as independent variable and dividend payout as dependent variable. Correlation research design was used in the study. Correlation coefficient was used to test for relationships and Chi-square test was used to test for differences in capital structures and dividend payout patterns at 5% level of significance on the basis of two-way classification model. The results of the study revealed that there is a significant strong positive relationship between capital structure and dividend payout.

Muindi (2006) studied the relationship between earning per share and dividend per share for companies listed in the NSE. The study was undertaken with a view of establishing whether there exist any relationship between the Earnings per Share and Dividend per Share of equities for companies quoted on the Nairobi Securities Exchange; for the years from 2000 to 2004 .Data was analyzed using SPSS with focus on regression model. The findings of the study indicated that there is a significant positive relationship between Earnings per Share and Dividend per Share.

Kioko (2011) analyzed the relationship between prior period dividends and financial performance of firms listed at the Nairobi stock exchange. The purpose of the study was to determine the relationship between prior period dividends and the financial performance of firms listed at the NSE. A survey research design was used in the study. The target population of the study was all companies listed in the NSE and a sample of 34 companies was selected. The variables in the study were EPS and DPS. Secondary data was collected from the company's websites, CMA and NSE. The results of the study revealed that majority of firms enjoy a better financial performance as it was indicated by their EPS after issuing dividends. The study indicated that a relationship exists between prior period dividend payments and financial performance of a firm.

Murekefu and Ouma (2012) studied the relationship between dividend payout and firm performance of listed companies in Kenya. The purpose of the study was to establish the relationship between dividend policy and firms performance using correlation analysis as the research design. The data used in this research was obtained from the annual reports of companies listed in the Nairobi securities exchange for a nine year period, from 2002 to 2010. Dividend payout was measured by the actual dividends paid out and firm performance was measured by the net profit after tax. Regression analysis was carried out to establish the

relationship between dividend payout and firm performance. The study revealed a strong and positive relationship between dividend payout and firm performance.

Kimathi and Aduda (2011) did a study on the applicability of the constant dividend model for companies listed in NSE.The objective of the study was to test the applicability of constant dividend model among companies listed at the Nairobi stock exchange. A survey design was applied in this study. Data was collected from annual reports and share price schedules obtained from Nairobi securities exchange and Capital market Authority for a sample of eighteen companies that paid dividends consistently from 2002 to 2008. Share prices were obtained from the daily pricelist schedules circulated by the Nairobi stock exchange handbooks. The data was analysed using the constant Dividend model. The findings of the research established that the dividend model was not employed by the companies listed at the Nairobi stock exchange.

Maniagi et. al (2013) examined the determinants of dividend payout policy among non-financial firms on Nairobi securities exchange in Kenya. Dividend payout ratio was dependent variable while independent variables were profitability, growth, current earnings, and liquidity. Size and business risk was taken as moderating variables. Purposive sampling technique was used to select a sample of 30 non-financial companies for duration of five years from 2007 to 2011. Secondary data was collected from audited financial statements of companies listed in Nairobi Securities Exchange website and the websites of non-financial firms. Descriptive statistics and multiple regressions were used to determine the nature of the relationship. Return on equity, current earnings and firms' growth activities were found to be positively correlated to dividend payout.

Karethio (2013) did a study on the relationship between dividend payout ratio and financial performance among listed firms in the Nairobi Securities Exchange. Correlation analysis was done to establish the relationship between the dividend pay-out ratio and the performance of the firms in the Nairobi securities exchange. Multiple regression analysis was carried out to establish the relationship between financial performance as the dependent variable and dividend payout ratio was given by dividend per share divided by earnings per share, firm size was measured by natural logarithm of market capitalization, tangible assets was measured by natural logarithm of tangible assets of the firm and leverage was given by total debt divided by shareholders equity as the independent variables. The data was obtained from the Nairobi Securities Exchange and was analyzed using SPSS. The findings indicated that dividend payout

ratio was a major factor affecting financial performance. Their relationship was also strong and positive.

A study by Oladipupo and Ibadin (2013) in Nigeria examined the relationship between working capital management practice and dividend payout ratio of manufacturing companies quoted in Nigeria Stock Exchange. Working capital management was measured by the net trade cycle, current ratio and debt ratio. Data was obtained from twelve manufacturing companies quoted on the Nigeria Stock Exchange between 2002 and 2006. Data collected was analyzed using the Pearson product moment correlation technique and ordinary least square regression technique. The results of the study revealed that dividend payout ratio was influenced positively by profitability and net trade cycle. Corporate profitability, working management, and growth in earnings had statistical insignificant effects on the dividend payout ratio at 5% confidence level. Hence, the study noted that working capital management is not significant in dividend policy decision.

Kotut (2003) did a study on working capital management practices of Kenyan listed firms. Stratified sampling method was used in the study. Regression and correlation analysis was used in data analysis. The results of the study indicated that most companies listed at NSE follows the recommended and acceptable practices in the management of working capital. Furthermore, the study revealed that working capital management practices influenced corporate profitability in variant proportions dependent on the sector the firms operated as well their sizes.

Mathuva (2010) conducted a study on the influence of working capital management components on corporate profitability within the listed firms in Kenya. Working capital management was used as the independent variable while corporate profitability as the dependent variable. A sample of 30 firms listed on the Nairobi Securities Exchange (NSE) for the periods 1993 to 2008 was used. Both the pooled ordinary least square and the fixed effects regression models were used to analyze the findings. The study revealed mixed results; firstly, there was a negative relationship between the time when the cash was collected from the customers and the firm's productivity. Secondly, there was a positive relationship between the inventories when they were brought in and the period to which they are sold and the firm's profitability.

Gakure et al. (2012) examined the relationship between working capital management and performance of manufacturing firms listed at the Nairobi Securities Exchange (NSE). The

study used secondary data from a sample of 18 companies at the NSE. A regression model was used to determine the relationship between performance the dependent variable and working capital management the independent variables. Pearson's correlation and regression analysis were used for the analysis. The results indicated that there is a strong negative relationship between firm's performance and liquidity.

Mitau (2013) studied working capital management and its effect on firm's profitability in Kenya a survey of non-financial institutions listed on the Nairobi Securities Exchange. Working capital management was measured by accounts receivables period,inventory turnover period and accounts payables period while firm's profitability as dependent variable was measured with return on assets. Regression analysis was used to determine the cause-and-effect relationship between working capital management and firm's profitability. The result of study indicated that there exist a negative relationship between accounts receivables period and firm's profitability among nonfinancial institutions listed in the NSE and a negative relationship between inventory turnover period and firm's profitability among the same institutions. However, the relationship between accounts payables period and firm's profitability was positive. The study observed that non-financial institutions in Kenya follow conservative working capital management policy

Kiplimo (2012) examined the relationship between working capital management and profitability of state owned commercial enterprises in Kenya. The aim of the study was to determine the most prevailing working capital management practices among state owned commercial enterprise in Kenya and to identify their relationship with profitability. The independent variables were aggressive, moderate and conservative management approaches while return on assets was dependent variable. Data collected was analyzed using a simple linear regression analysis. The results of the study revealed that profitability is dependent on aggressive, moderate and conservative management approaches.

Kyalo (2010) studied the relationship between working capital management and profitability of cement companies in Kenya. The objective of the study was to establish the relationship between working capital management and profitability in cement companies in Kenya. The population of interest was all the cement companies operating in Kenya as at 30th December 2010. Working capital management was measured by cash conversion cycle, accounts receivables period, inventory turnover period and accounts payables period. Spearman's Correlation analysis was used to establish the relationship between working capital

management and profitability. Findings of the study indicated that working capital management increases profitability, and hence a negative relationship existed between the working capital management and profitability variables. The study revealed that efficient management of working capital increases profitability.

Makori and Jagongo, (2013) analyzed working capital management and firm profitability of manufacturing and construction firms listed on Nairobi securities exchange. Working capital management was taken as the independent variable, while firm's profitability as dependent variable. Pearson's correlation and ordinary least squares regression models were used to establish the relationship between working capital management and firm's profitability. The study found a negative relationship between profitability and accounts receivable day's and cash conversion cycle, but a positive relationship between profitability and number of days of inventory and number of day's payable. The study suggested that managers can create value for their shareholders by reducing the number of day's accounts receivable and increasing the accounts payment period and inventories to a reasonable maximum.

Caffaso (2011) assessed the relationship between working capital management financing policy and profitability of manufacturing firms in Kenya. Descriptive statistics analysis was conducted on all the variables to give the general behaviour of the manufacturing firms quoted at the Nairobi Securities Exchange with respect to working capital financing policy and return on assets. Pearson correlation coefficient analysis was conducted to establish the relationship among the variables however the study failed to confirm any significant relationship between working capital management and profitability.

Kweri (2012) conducted a study on the relationship between working capital management and profitability of manufacturing firms listed in Nairobi Securities Exchange. The study used secondary data obtained from the annual reports and financial statements of manufacturing companies listed on the NSE for the period 2006-2010. Pearson's correlation and regression analysis were used for the analysis and tests of significance were carried out for all variables using t-test at the 95% level of significance. The results indicated that the model examined in this study was significant with an adjusted R^2 of 56.4% and also that all the independent variables had a significant relationship individually with the net operating profit.

Katiwa (2012) studied the relationship between working capital management and the profitability of small and medium enterprises in Nakuru municipality. The main purpose of the study was to determine the relationship between working capital management and the

profitability of small and medium sized enterprises within Nakuru Municipality. Descriptive research design was used in the study. The study selected a sample of 61 small and medium enterprises for a period of five years (2006 -2010) with a total of 305 observations. The data for the study was collected from secondary sources and was analyzed using regression analysis and Pearson's correlation. Working capital management was measured by cash conversion cycle, current ratio, debt ratio while profitability was measured using return on assets and the control variable was sales growth. The results of the analysis indicated that there is a negative relationship between cash conversion cycle and profitability. A positive relationship between current ratio and profitability was also noted as well as that of debt ratio and profitability. For the sales growth, evidence is positively related to profitability.

Waithaka (2012) examined the relationship between working capital management practices and financial performance of agricultural companies listed in Nairobi securities exchange. The study adopted a correlation research design which attempted to explore the relationship between working capital management and financial performance to make predictions with the use of two or more variables for each. The target population consisted of the seven agricultural companies listed at the Nairobi Securities Exchange. The data was analyzed using both descriptive and inferential statistics. Consequently, the findings of the study were that, financial performance was positively related to efficiency of cash management (ECM), efficiency of receivables management (ERM) and efficiency of inventory management (EIM) at 0.01 significance level. The coefficient of determination ($R2$) indicated that 59.7% of the variations in financial performance could be explained by changes in to efficiency of cash management, efficiency of receivables management and efficiency of inventory management.

Murega (2013) investigated the effects of working capital management on corporate profitability among firms listed in Nairobi securities exchange. Profitability was measured in two different ways: return on sales and on asset. The independent variables were cash conversion cycle, inventory holding period, accounts receivable period and accounts payable period. Correlation research design was used in the study. The target population was all firms listed in Nairobi securities exchange from the year 2005 to 2011. The study used stratified method to select sample units. Data collected was analyzed using multiple linear regressions and analysis of variance. The results of the study revealed that cash conversion cycle, inventory holding period, accounts receivable period and accounts payable period of the firms has a

negative effect on the firms' profitability, as measured by return on assets, return on equity and operating profit margin.

2.9 Conceptual Framework

Independent variable   **Dependent Variable**

```
┌─────────────────────────────────┐              ┌─────────────────────────────────┐
│ Working capital management      │              │ Dividend payout ratio           │
│                                 │              │                                 │
│ Accounts receivable period      │              │ Dividend per share              │
│                                 │   ──────────►│                                 │
│ Inventory conversion period     │              │ Earnings per share              │
│                                 │              │                                 │
│ Accounts payable period         │              │                                 │
│                                 │              │                                 │
│ Cash conversion cycle           │              │                                 │
│                                 │              └─────────────────────────────────┘
└─────────────────────────────────┘

                            ┌─────────────────────────┐
                            │ Sales growth            │
                            │                         │
                            │ Leverage                │
                            └─────────────────────────┘
                               **Moderating variables**
```
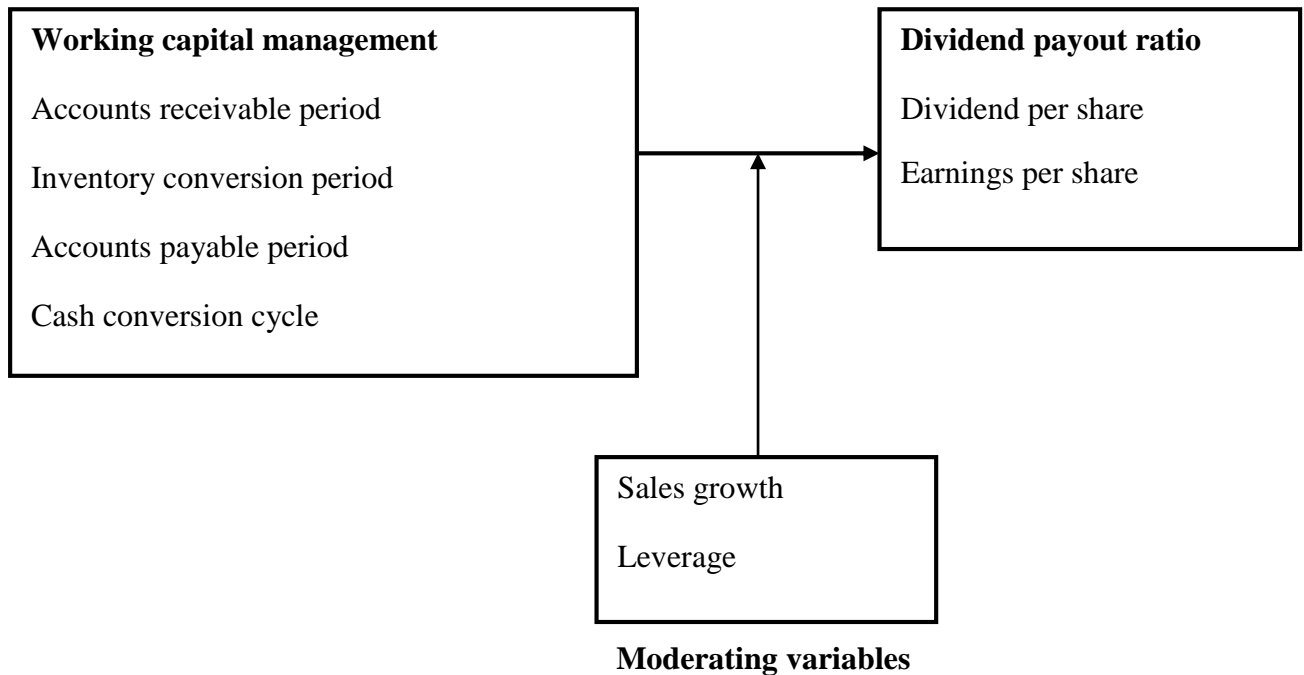
Source; Reviewed literature (2014)

Figure 1 Relationship between working capital management and dividend Payout Ratio

This study was guided by the relationship between working capital management and dividend payout ratio. Working capital management, whose indicators was accounts receivable period, inventory conversion period accounts payable period, and cash conversion cycle. Efficient working capital management is expected to result into increase in profits which lead to dividend payment. Dividend payout will be assessed in terms of dividend per share and earnings per share. The moderating variable was sales growth and leverage. These moderating variables may have some effect on working capital management and dividend policy if they are not controlled.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the method that was used by the study to achieve its set objectives. It starts with the research design, the population, sample design, data collection, analysis and presentation.

3.2 Research Design

This study used a correlation research design. According to Mugenda and Mugenda (2003) the correlation research design describes in quantitative terms the degree to which variables are related. It involves collecting data in order to determine whether and to what degree a relationship exists between two or more quantifiable variables.

3.3 Target Population

The target population of this study was all the firms quoted in the Nairobi Securities Exchange by October 2014. According to annual capital markets authority report (2014) sixty two companies were listed in the NSE.

3.4 Sample Design

Purposive sampling design was used to select a sample of thirty four firms consistently listed in the NSE from 2006 to 2013. Firms in the financial sector were excluded in the study because they do not deal with inventories (see appendix 2). According to Cooper and Schilder (2003), this technique allows the researcher to use handpicked cases or subjects for the study which have the required information as per the objectives of the study.

3.5 Data collection

Secondary data was collected for a period of eight (8) years ranging from 2006-2013 using published annual reports and financial statements of listed in the NSE. Data was also obtained from NSE handbooks (2006 -2013) of thirty four (34) companies continuously listed in the Nairobi securities exchange. Data collection sheet was used to collect secondary data. Data on dividend policy of each company was dividend payout ratio. Furthermore, data on working capital management consisted of account receivables, accounts payable, inventory, sales, and cost of sales

3.6 Data analysis

Data collected was analyzed using inferential statistics. Both multiple regression and correlation analysis were carried out to test the relationship between working capital management and dividend policy. Statistical package for social sciences (SPSS) software version 16 was used in data analysis to determine whether the results indicate positive or negative relationships. Between 0 and 0.5 ($0<r<0.5$) the correlation is weak, and between 0.6 and 1.0, ($0.6<r<1.0$), the correlation is strong. ANOVA test was used to determine the level of

significance of the regression coefficient. The following regression model adopted from Makori and Jagongo (2013) with a modification was used in data analysis.

$$Y=\beta 0+\beta 1\chi 1+\beta 2\chi 2+\beta 3\chi 3+\beta 4\chi 4+E$$

Where,

Y = Dividend Payout Ratio, estimated as ratio of dividend per share divided by earnings per Share.

β= Is a constant, the value of Y when all X values are Zero.

X1(ACP) – Accounts receivables collection period given by accounts receivables period divide with credit sales multiply by days in a year

X2(ICP) – Inventory conversion period given by average inventory divided by cost of sales multiply by days in a year

X3 (APP) – Accounts payable period given by average payables period divided by cost of sales multiply by days in a year

X4 (CCC) –Cash conversion cycle given by (ACP +ICP-APP)

$\beta 1, \beta 3, \beta 2, \beta 4,$ – are regression coefficients or change induced in Y by each X variable

E – Error term

Durbin Watson and variance inflation factor were used to detect autocorrelation and multicollinearity among independent variables.

3.7 Data presentation

The analyzed data was presented in form of tables. Similarly, this would help readers to understand how the study arrived at a conclusion as well as the interpretations that were made in the study.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND INTERPRETATION

4.1 Introduction

This chapter presents the results and findings of the study based on the research objectives. The objectives of the study were, to determine the relationship between accounts receivable collection period and dividend payout ratio, to establish the relationship between inventory

conversion period and dividend payout ratio, to evaluate the relationship between accounts payable period and dividend payout ratio and to examine the relationship between cash conversion cycle and dividend payout ratio. The study used regression analysis and Pearson correlation analysis. Furthermore, analysis of variance was used to determine the level of significance.

4.1: Correlation Analysis

Table 4.1 Pearson Bivariate Correlation Analysis and Two tailed t-test

		ACP	ICP	APP	CCC	DPR
ACP	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	272				
ICP	Pearson Correlation	.093	1			
	Sig. (2-tailed)	.124				
	N	272	272			
APP	Pearson Correlation	.304**	.500**	1		
	Sig. (2-tailed)	.000	.000			
	N	272	272	272		
CCC	Pearson Correlation	.215**	.119*	-.410**	1	
	Sig. (2-tailed)	.000	.049	.000		
	N	272	272	272	272	
DPR	Pearson Correlation	-.079	-.073	.089	.022	1
	Sig. (2-tailed)	.193	.233	.145	.712	
	N	272	272	272	272	272

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Table 4.1 Above indicates the correlation values between working capital management variables and dividend payout ratio. Dividend payout ratio is negatively correlated with accounts receivable collection period as shown by correlation coefficient of -0.079, this implies that collecting payments from customers within shortest time possible can significantly increase dividend payout ratio. Again the result indicates that there is no statistical significant relationship between accounts receivable collection period and dividend payout ratio as shown by p-value of 0.193 (p>0.05). Compared to the previous studies, the findings relate closely to

that of Mathuva (2010) and Mitau (2013), in their studies who observed the importance of reducing the firms average collection period in order to enhance profitability.

Similarly, the inventory conversion period in days have a negative correlation of -0.073 with a statistical insignificant relationship of p-value of 0.233(P>0.05); this means that reducing the period of ordering raw materials can significantly increase dividend payout ratio, the results of the study are consistent with that of Murega (2013) who investigated the effects of working capital management and corporate profitability among listed firms in NSE.

Payable days show a positive relationship of 0.089 with the dividend payout ratio, with a p-value of 0.145 which is higher than 0.05 implying that the relationship is statistically insignificant, this implies that if firms can delay making payments to their suppliers can lead to increased dividend payout ratio, the results are in agreement with Makori and Jagongo (2013) who analyzed working capital management and firm profitability of manufacturing and construction firms listed in NSE and found a positive relationship between average payable period and profitability. Finally cash conversion cycle is positively correlated with dividend payout with a p value of 0.712; however the relationship is statistically insignificant with a p-value greater than 0.05

4.2 Relationship Working Capital Management and Dividend Payout Ratio

The main objective of the study was to establish the relationship between working capital management and dividend policy of firms listed at NSE. First correlation and multiple regression analysis were done sector wise and then the overall analysis of the entire data.

Source: Research data (2015)

The correlation coefficient value was 0.293 as shown in the table above. This means that there is a weak positive relationship between working capital management and dividend policy (r<0.5). The coefficient of determination (R^2) shows that working capital management influenced 8.6% of the variations in dividend payout ratio. In order to test for the presence of autocorrelation Durbin- Watson was performed and the results indicated that there was no autocorrelation as indicated by the value of 1.518 which is within the acceptable limit of 1.5 to 2.5

According to table 4.3, the overall significance of the model was 0.000 with an F value of 6.253. This means no relationship between working capital management and dividend payout ratio. Therefore the study fails to rejects the null hypothesis and concludes that there is no statistical significant relationship between working capital management and dividend payout ratio. The results of the study are consistent with that of Oladipupo and Ibadin 2013 that concluded working capital management does not matter in dividend policy decisions. However the result of the study is inconsistent with that of Muchendu 2003 who found out that working capital is a determinant factor of dividend.

Table 4.4: Regression coefficients

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	31.056	4.660		6.664	.000		
	ACP	-.184	.052	-.244	-3.511	.001	.710	1.408
	ICP	-.191	.049	-.299	-3.882	.000	.575	1.738
	APP	.166	.036	.430	4.612	.000	.393	2.544
	CCC	.081	.022	.287	3.619	.000	.543	1.840

a. Dependent Variable: DPR
 Source Research data (2015)

The results in the above table indicate that the coefficient of accounts receivable collection period for sampled companies in Kenya was -0.184, this means that an increase in accounts receivable collection period leads to decrease in firms' dividend payout ratio. Similarly the inventory conversion period was -0.191 this means that an increase in inventory conversion period leads to decrease in firms' dividend payout ratio. Furthermore, accounts payable period and cash conversion cycle had a coefficient of 0.166 and 0.081 respectively. This indicates that a decrease in accounts payable period and cash conversion cycle leads to an increase in firms' dividend payout ratio by 0.166 and 0.081 respectively. Similarly the results of the study indicates that there is a statistical significant relationship between accounts receivables collection period and dividend payout ratio (p=0.001), therefore the study fails to reject a null hypothesis. Furthermore the results of the study indicates that there is no relationship between inventory conversion period, accounts payable period and cash conversion cycle with dividend payout ratio (p=0.0000).Therefore the second, third and fourth hypothesis are rejected. Table 8 further shows that there is statistical significant relationship between working capital management and dividend payout (p=0000) ratio. In order to test for multi-colinearity in the

data, variance inflation factor and tolerance factors were used. Furthermore it was evident from the table that there was no multicolinearity because all values were below 10 and tolerance value of more than 0.2. Similarly, the results of the regression equation below shows that a point increase in working capital management components, dividend payout ratio is predicted to increase by 31.056.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATION

5.1 Introduction

This chapter summarizes the study and makes conclusion based on the research findings. The recommendations of the study and areas for further research are also presented.

5.2 Summary of Findings

The aim of the study was to establish the relationship between working capital management and dividend payout ratio of firms listed in Nairobi securities exchange. Data was analyzed using inferential statistics ranging from 2006 to 2013.

The study established that there exists a negative relationship between accounts receivable collection period and dividend payout ratio among listed firms in Kenya. This implies that collecting payments from customers within shortest time possible can significantly increase dividend payout ratio and there was no prior studies to compare with because the study was only done in Nigeria using other variables like profitability, growth in earnings etc

Findings of the study also revealed that there is a negative relationship between inventory conversion period and dividend payout ratio among listed firms in Kenya. This means that companies can increase dividend payout ratio by reducing inventory in days. Furthermore, companies can increase dividend payout ratio by reducing the costs of holding inventory.

Similarly, the study found out that there is a positive relationship between average payable period and dividend payout ratio among listed firms in Kenya. This implies that if time period of paying suppliers is increased then overall firm's dividend payout ratio will increase.

Likewise, the study found out that there is a positive relationship between cash conversion cycle and dividend payout ratio among listed firms in Kenya. This implies that an increase in cash conversion cycle will lead to a reduction in dividend payout ratio.

Finally the findings of the study revealed that there is no statistical significant relationship between working capital management and dividend payout ratio among listed firms in Kenya, these findings are consistent with that Oladipupo and Ibadin 2013 in Nigeria.

5.3 Conclusions

From the findings, there is a weak positive relationship between accounts receivables collection period and dividend payout ratio(r=0.079) .Similarly, the results also indicated that there is a weak positive relationship between inventory conversion period and dividend payout ratio (0.073) .Furthermore, the results of the study also indicates that accounts payable period and cash conversion cycle have a weak positive relationship with dividend payout ratio as shown by (r=0.089 and r= 0.022) respectively. The study therefore concludes that working capital management has a weak positive effect on dividend payout ratio of firms listed in NSE (r=0.293).

Furthermore, it is evident that at 95% confidence level, accounts receivable collection period shows a statistical significant relationship as shown by P value (0.001) (p<0.05), While accounts payable period, inventory conversion period and cash conversion period shows a statistical insignificant relationship a shown by p value of (0.0000). Finally the overall findings indicates that there is no statistical significant relationship between working capital management and dividend payout of firms listed in NSE as shown by p value of 0.0000 (p<0.05).

5.4 Recommendations

From the above findings the study recommends that managers of firms listed in Nairobi securities exchange should set credit policies that would enable them to receive receivables as soon as possible this helps to reduce their accounts receivables period. In addition managers should also focus on maintaining the inventory at optimal level to reduce the costs of holding inventory. Similarly, managers must also delay paying suppliers, the longer the average payable period the more dividend payout ratio; this can only be achieved by selection of good suppliers and maintaining reputation of the firm. Lastly managers should focus on reducing the cash conversion cycle by investing more in working capital.

Finally lenders should come up with abroad scope to cover all working capital management components that can sufficiently explain dividend payout ratio of listed firms in Kenya. This is because the current working capital management components explained only 8.6% of dividend payout ratio in listed firms. Finally investors should invest in sectors that showed a strong positive significant relationship between variables under study.

5.5 Suggestions For Further Research

A similar study should be conducted using other measures of working capital management like efficiency indices, on measures of dividend policy like price earnings ratio, dividend cover, retention ratio and dividend yield. Furthermore a comparative study with a longer period should be undertaken to determine the nature of the relationship and lastly a similar study should also focus on non-listed firms.

REFERENCES

Ajanthan, A. (2013). Relationship between dividend payout and firm profitability; A study of listed Hotels and restaurants in Sri Lanka. *International journal of scientific and research publications vol. 3* 1-6

Afza.T and Nazir .M. (2007).Working capital management policies on firms; Empirical evidence from Pakistan.*Pakistan journal of commerce and social sciences* 1(1) 25-36

Amidu, M. (2007), How does dividend policy affect performance of the firm on Ghana stock Exchange? *Investment Management and Financial innovations,* 4(2), 104-112

Bhattacharya, H. (2003). Working Capital Management, Strategies and Techniques. New Delhi Prentice hall.

Bitok, J. (2004). The effect of dividend policy on the value of the firms quoted at the NSE. *Unpublished MBA Project*.University of Nairobi.

Bitok, K., Tenai. J., Cheruiyot,T., Maru, L. and Kipsat, M. (2010), The Level of Corporate Dividend payout to Stock Holders: Does optimal dividend policy exist for firms quoted at NSE? *International Business and Economics Research journal* vol.9 No.3 72-84

Bijendra .B. (2009). Dividend policy and its impact on share price an analysis of selected 'A' class listed companies, *Unpublished MBA project.* Apex College. Pokhara University

Brigham, E. and Houston, J. (2004) *Fundamentals of Financial Management,* Thomson, Southwestern Publishers, USA

Brigham, E. & Ehrhardt, M. (2011).*Financial Management Theory and Practice.* South Western Cengage Learning Graphic World, Inc. USA

Caffasso, A. (2011). Relationship between working capital financing policy and profitability of Manufacturing firms in Kenya. *Unpublished MBA project* University of Nairobi.

Chebii, E.(2006). Relationship between Capital Structure and Dividend payout ratio.*Unpublished MBA project.*Egerton University.

Cooper, D. & Schilder, P. (2003).*Business research methods.*8th edition. New Delhi: MacGraw- Hill, Inc

Eugene F. and Gapsenski L.(1988). *Financial management, theory and practice.*5th Edition. Dryden Press, London

Gakure, R., John, K., Jared, A. & Victor, K. (2012) Working Capital Management and Profitability of manufacturing firms enlisted at NSE. *Prime journal of business administration and management (BAM), 2*(9), 680-686.

Gill, A., Biger, N. & Mathur, N. (2010).*The Relationship between Working Capital Management and Profitability*: Evidence from the United States. Business andEconomics Journal, Vol.   2010, 1-9.

Gitman, L. (2000). Principles of Managerial Finance Ninth Edition, Addison-Wesley, Boston, MA.

Habib.Y, Kian.Z and Khan.M (2012). "Dividend policy and Share Price Volatility: Evidence from Pakistan*" Global Journal of Management and Business Research* vol.12, issue 5, version1.0, March, 2012 56-74

Hashemijoo.M, Ardekani.A and Younesi.N. (2012). "The impact of Dividend Policy on Share Price Volatility in Malaysian Stock Market" *Journal of Business Studies Quarterly 2012, vol.4,* No.1, .111-129

Hisanet Africa (2014) companies listed at NSE www.hisanetafrica.com/nse/php 29,25th

June,2014

Jecheche, P. (2012). Dividend policy and stock price Volatility: A case of Zimbabwe stock exchange. *Journal of Finance and Accountancy;* vol.10. 1-13

Jensen, M. (1986).Agency Costs of Free Cash Flow, Corporate Finance, and Takeovers.*American Economic Review journal* vol 76.323-329.

Katiwa, J. (2012) relationship between working capital management and the profitability Of small and medium enterprises in Nakuru municipality.*Unpublished MBA Project.* University of Nairobi

Kareitho, E. (2013). Relationship between dividend policy and financial performance, *Unpublished MBA Project.* University of Nairobi

Khan, K .I and Khan, M.I (2011). "Dividend Policy and Stock Prices" A case of KSE- 100 index companies 141-148

Kesimli, I. and Gunay .S. (2011).The impact of Global economic crisis on working capital of real estate in Turkey. *Business and Economic horizon* journal vol 4(1) 52-69

Kimathi .H and Omollo .A (2011) Applicability of constant dividend model for companies listed at NSE. *Unpublished MBA Project.*University of Nairobi

Kioko, M. (2006) An analysis of the relationship between business changes and future profitability of companies quoted at NSE. *Unpublished MBA Project.* University of Nairobi.

Kioko, P. (2011) Relationship between prior dividends and financial performance of firms listed in the NSE. *Unpublished MBA Project.* University of Nairobi

Kiplimo, S. (2012) The Relationship between working capital management and profitability Of state owned commercial enterprises in Kenya. *Unpublished MBA Project.* University of Nairobi

Kimeli .K. (2012) Analysis of effects of working capital management on profitability of Manufacturing companies: a case study of listed manufacturing companies in Nairobi Securities Exchange. *Unpublished MBA Project*. Kabarakak University

Kotut, K. (2003) Working capital management practices by Kenyan firms. A case study of Firms listed in the NSE. *Unpublished MBA project*. Egerton University

Khalid, H., Chijoke, O.M., and Aruoriwo, M.C. (2010). Divided policy and share price

Volatility: UK evidence. *The Journal of Risk Finance, vol 12 (1),* 57-68.

Kweri, M. Samuel (2012) The relationship between working capital management and profitability of manufacturing firms listed in the NSE. *Unpublished MBA Project* University of Nairobi

Kyalo, K. (2010) The relationship between working capital relationship and profitability of cement companies in Kenya. *Unpublished MBA Project.*University of Nairobi.

Makori, D. and Jagongo, A. (2013) Working capital management and firm profitability. Empirical evidence for manufacturing and construction firms listed in the NSE. *International journal of accounting and taxation* vol.1 No.12372-4978

Maniangi, G. Musiengi and Ondieki B. Alala (2013) Determinants of dividend payout policy among non-financial firms on NSE.*International Journal of scientific and technological research* vol.2 253-266

Mathuva, D. (2010). The influence of working capital management components on corporate profitability: a survey on Kenyan listed firms. *Research Journal of Business Management*, 3: 1-11

Miller, M. and Modigliani, F. (1961) Dividend Policy, Growth, and Valuation of Shares. *Journal of Business,* 34, 411-433

Mitau, M. (2013) Working capital management and its effects on firm's profitability, a survey of non-financial institutions listed on the NSE. *Unpublished MBA project,* University of Nairobi.

Mohammad, S. (2013) Effects of Dividends Policy on shareholders wealth. A study of sugar industry in Pakistan. *Global journal of management and business research finance.* Vol.13 issue 7 47-54

Muchendu, P. (2003) Study on the determinants of dividends. An empirical investigation of publicly quoted companies in *Kenya unpublished MBA project.* Egerton University

Mudida .R and Ngene, G (2010) *financial management* focus publishers Nairobi Kenya

Mugenda, O. and Mugenda.A. (2003).*Research methods. Quantitative and qualitative approaches.* Nairobi, Kenya: ACTS Press.

Muindi, H. (2006). The relationship between earnings per share and dividends per share of equities for companies listed in the NSE. *Unpublished MBA project.* University of Nairobi.

Murekefu, T. and Ochuodho, P. (2012) *Relationship between Dividend Payout and Firm Performance: A study of Listed Companies in Kenya.* European Scientific Journal, 8(9) .119-215

Murega, M. (2012**),** Relationship between working capital management and firms' performance,*Unpublished MBA project.* University of Nairobi

Müller, M. (2011).*Essentials of Inventory Management*. Library of Congress Catalogue, USA.

Odhiambo, J. (2013) Relationship between working capital management and Performance of deposit, taking savings and credit cooperative societies licensed by Sacco society's regulatory authority in Nairobi County. *Unpublished MBA project.*University of Nairobi

Oladipupo, A. and Okafor, C. (2013) Relative contribution of working capital management to corporate profitability and dividend payout ratio: Evidence from Nigeria 11-20

Oladipupo. A and Okoeguale. P (2013) Does Working Capital Management Matter in Dividends Policy Decisions. Empirical Evidence from Nigeria. *International journal of financial research* vol.4 No.4, 2013 140-158

Pandey, I. M (2010) Financial management .Vikas Publishing house, New Delhi, India.

Rashid. A and Rahman.A.Z (2006) Dividend policy and stock price volatility. *Journal of applied Business and Economics* 1-11

Rimo, A. and Panbunyuen, P. (2010) The effects of company characteristics on working capital management. A Quantitative study of Swedish listed companies.

Ross, S., Westerfeild, R. and Jordan, B. (1996).*Essentials of Corporate Finance.* Boston: Irwin McGraw-Hill, .381-462

Saunders .M, Lewis. P and Thornhill. A. (2003).*Research methods for business students.*third edition. New York Prentice Hall Publishers

Uwalomwa, U. and Ajayi, A. (2012) Dividends Policy and Firm Performance: A study of listed firms in Nigeria. *Journal of Accounting and Management information system* vol.11 No.3 442-454

Van-Horne, J. and Wachowicz, J. (2011) *Fundamentals of financial management* 14th edition New York Prentice Hall Publishers

Waithaka, A. (2012)The relationship between working capital management practices and financial performance of agricultural companies listed at the Nairobi securities exchange.*Unpublished MBA project* .University of Nairobi.

Waithaka, S. (2012). Effects of Dividend Policy on share price a case of NSE. *A prime journal of Business Administration and Management* vol.2 642-648

Wanjiku, K. (2013) Effects of macroeconomic variables on dividend policy of firms listed in NSE. *Unpublished MBA project.*University of Nairobi.

Waweru, G. (2010). Do dividends matter? Some evidence from an emerging market: *Journal of finance, School of Administrative Studies*, York university vol.24 No.1 1-10

APPENDIX 1: DATA COLLECTION SHEET

COMPANY NAME	YEAR	DPR	SALES	COST OF SALES	A/R	A/P	INVENTORY

APPENDIX 2   COMPANIES LISTED AT N.S .E OCTOBER 2014

	COMPANY NAME	YEAR LISTED	YEAR SUSPENDED	YEAR DELISTED	YEAR RELISTED
	AGRICULTURE SECTOR				
1	Eaagads Ltd Ord 1.25	1972			
2	Kakuzi Ord 5.00	1951			
3	Kapchorua tea Co Ltd Ord 5.00	1972			
4	Limuru Tea C.o Ltd Ord 20.00	1967			
5	Rea vipingo plantations Ltd Ord 5.00	1996			
6	Sasini Ltd Ord 1.00	1965			
7	Williamson tea Kenya Ltd Ord 5.00	1972			
	AUTOMOBILE AND ACCESSORIES				
8	Car and general (k) Ltd Ord 5.00	1950			
9	CMC Holdings Ltd Ord 0.50	1956	2011		
10	Marshalls (E.A.) Ltd Ord 5.00	1954			
11	Sameer Africa Ltd Ord 5.00	1994			
	BANKING SECTOR				
12	Barclays bank Ltd Ord 0.50	1986			
13	CFC Stanbic Ltd Ord 5.00	1970			
14	Diamond trust bank Ltd Ord 4.00	1972			
15	Equity bank Ltd Ord 0.50	2006			
16	Housing finance Co Ltd Ord 5.00	1992			
17	I and M holding Ltd Ord 1.00	2013			
18	KCB Ltd Ord 1.00	1989			
19	NBK Ltd Ord 5.00	1994			
20	NIC bank Ltd Ord 5.00	1971			
21	Standard chartered Bank Ord 5.00	1988			
22	Co-op bank of Kenya Ltd Ord 1.00	2008			
	COMMERCIAL SERVICES SECTOR				
23	Express Ltd Ord 5.00	1978			
24	Hutchings Biemer Ltd Ord 5.00	1948	2010		

25	Kenya airways Ltd Ord 5.00	1996			
26	Longhorn Kenya Ltd Ord 1.00	2012			
27	Nation media group Ord 2.50	1973			
28	scan group Ltd Ord 1.00	2006			
29	Standard group Ltd Ord 5.00	1954			
30	TPS EA (Serena) Ltd Ord 1.00	1997			
31	Uchumi supermarket Ltd Ord 5.00	1992	2006		2011
	CONSTRUCTION AND ALLIED SECTOR				
32	ARM Cement Ord 5.00	1997			
33	Bamburi Cement Ltd Ord 5.00	1970			
34	Crown Berger Ltd Ord 5.00	1992			
35	E.A.Cables Ltd Ord 0.50	1973			
36	E.A Portland cement Ltd Ord 5.00	1950			
	ENERGY AND PETROLEUM				
37	Ken Gen Ltd Ord 2.50	2006			
38	Kenol Kobil Ltd Ord 0.05	1959			
39	KPLC Ltd Ord 2.50	1972			
40	Total Kenya Ltd Ord 5.00	1988			
41	Umeme Ltd Ord 0.50	2012			
	INSURANCE SECTOR				
42	British America Ltd Ord 0.10	2012			
43	CIC Insurance Group Ltd Ord 1.00	2011			
44	Jubilee holdings Ltd Ord 5.00	1984			
45	Kenya Re Insurance Ltd Ord 2.50	2007			
46	Liberty Kenya Ltd Ord 1.00	2012			
47	Pan Africa insurance Ltd Ord 5.00	1963			
	INVESTMENT SECTOR				
48	Centum investment Ltd Ord 0.50	1977			
49	N .S. Exchange Ord 4.00	2014			
50	Olympia holdings Ltd Ord 5.00	1974			
51	Trans century Ltd Ord 0 .50	2011			
	MANUFACTURING AND ALLIED SECTOR				

52	A. Baumann C.O Ltd Ord 5.00	1948	2012		
53	B.O.C Kenya Ltd Ord 5.00	1969	2009		
54	B.A.T Kenya Ltd Ord 10.00	1969			
55	Carbacid Investments Ltd Ord 5.00	1971			
56	East Africa Breweries Ltd Ord 2.00	1972			
57	Eveready E.A Ltd Ord 1.00	2006			
58	Kenya orchards Ltd Ord 5.00	1959			
59	Mumias sugar .co Ltd Ord 2.00	2001			
60	Unga group Ltd Ord 5.00	1971			
	TELECOMMUNICATION SECTOR				
61	Safaricom Ltd Ord 0.05	2008			
62	Access Kenya	2007			2012

Source; Hisanet Africa (2014)

APPENDIX 3 ANALYSIS TABLES SECTOR WISE

Table 1 Relationship between accounts receivable period and dividend payout ratio.

S/NO	SECTOR	R	R2	ANOVA	

1	Agriculture sector	0.132	0.017	0.331
2	Automobile and Accessories sector	0.307	0.095	0.144
3	Commercial and services sector	0.146	0.021	0.323
4	Construction and Allied sector	0.474	0.225	0.002
5	Energy and Petroleum sector	0.552	0.304	0.001
6	Investment sector	0.175	0.031	0.516
7	Manufacturing and allied sector	0.000	0.000	0.998

Table 2 Relationship between inventory conversion period and dividend payout ratio.

S/NO	SECTOR	R	R2	ANOVA
1	Agriculture sector	0.401	0.161	0.002
2	Automobile and Accessories sector	0.079	0.006	0.713
3	Commercial and services sector	0.441	0.195	0.002
4	Construction and Allied sector	0.335	0.112	0.035
5	Energy and Petroleum sector	0.134	0.018	0.463
6	Investment sector	0.346	0.120	0.189
7	Manufacturing and allied sector	0.099	0.010	0.466

Table 3 Relationship between accounts payable period and dividend payout ratio.

S/NO	SECTOR	R	R2	ANOVA
1	Agriculture sector	0.238	0.057	0.078
2	Automobile and Accessories sector	0.121	0.015	0.574
3	Commercial and services sector	0.480	0.230	0.001
4	Construction and Allied sector	0.048	0.002	0.767
5	Energy and Petroleum sector	0.184	0.034	0.315
6	Investment sector	0.350	0.122	0.184
7	Manufacturing and allied sector	0.039	0.002	0.774

Table 4 Relationship between cash conversion cycle and dividend payout ratio.

S/NO	SECTOR	R	R2	ANOVA
1	Agriculture sector	0.010	0.000	0.943
2	Automobile and Accessories sector	0.200	0.040	0.349
3	Commercial and services sector	0.332	0.110	0.021
4	Construction and Allied sector	0.432	0.187	0.005
5	Energy and Petroleum sector	0.133	0.018	0.468
6	Investment sector	0.193	0.037	0.474
7	Manufacturing and allied sector	0.192	0.037	0.156