The Effects of Overall Growth on Dividend Payout in Kericho Tea Estates

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Abstract

Tea sector is a major source of revenue to the Kenyan government. The study established the effect of production index on dividend payout policy on firms. The objective of the study was to establish the effect of dividend policy on increase and decrease of growth in Kericho tea estate. A descriptive research design approach was used and the target population comprised of all the 105 respondents for a target population of 300 in selected tea factories in the county. The questionnaire was personally administered and the validity of the study was ensured through critical review by the research supervisor. The analysis was performed using data derived from the financial statements of listed factories under KTDA during the most recent period. Ordinary Least Squares model was used to estimate the regression equation. The data was analyzed using regression with the help of statistical package for social sciences (S.P.S.S) computer software program version 21 and presented using a pie chart and tables. Efforts were made to avail results of the interviews and other instruments for inspections by management of the institutions and officers were involved where there was need.

Keywords: Overall growth, Dividend pay-out, firm performance, Shareholders wealth

Introduction

In Kenyan economy, business fields have been hugely affected by issues of globalization, privatization and liberation as result of technological advancements effects. Baker et al., (2015) noted that to survive the competition, firms have always strived to increase their value through the settlement of the basic business and budgets activities that would increase their growth and expand its share to the shareholders and better the firm's value. According to Bresciani et al., (2016), profits is a main economic drive for firms and the urge to better performance in the firm can be attributed to two main factors: the firm hold profits to use for the company's future growth, and secondly, to distribute to their shareholders. Manneh and Naser (2015) noted that distribution of profits to the shareholders can be done in two forms: through a dividend policy or through repurchasing of the shares in circulation. Further, Floyd and Skinner (2015) pointed that the two actions of profits are mutually related thus, firms need a policy that guide its dividend payment in relation to growth of the company. According to Ahmed (2015) dividend policy remains an essential for firm's strength and also helps the firm predict the organization future prospect and development.

According to Michiels et al., (2015), before potential investors undertake any investment in any company, usually they will undertake a research on the company's capacity to pay dividends. But since the management prosperity is determined by the wealth held by the shareholders, management should exhaustively analyse its dividend policy. Kighir et al., (2015) pointed that from the investors point of view, dividends are the company's main source of income for investment while according to the firm, dividend pay-out is a way in which the company is redistributing its profits to the shareholders as a way of appreciating them and further encourage them to support the company. Baker and Weigand (2015) noted that dividends are used to announce the company's growth and performance since a company that pays dividends do so from retained profits after substantial profits have been earned by the company. Kumar and Sujit (2018) further noted that while establishing its dividend policy, firms thus pay attention to profits consistency thus the different policies established by the firm. Budagaga (2017) noted that the difference in the mounts paid by firms to its stakeholders has become an interesting aspect that market researcher observes keenly.

According to Attig et al., (2016), many prior researches have not provided a conclusive analysis on dividend policy in relation to the growth of the firm. Priya and Mohanasundari (2016) in his study asserted that low dividends to the shareholders signifies increased growth in the firm in the future. But then, what if the company paid lower dividends due to less retained earnings in the business. However, the logical argument is that lower dividends offers the fir a higher chance to grow itself in the near future (Bushra and Mirza, 2015). Issa (2015) noted that companies with high growth rates prefer exhausting its internal cash before seeking other external funds for its growth. This means that high growth rates are associated with higher retained earnings in the organization. Dewasiri et al., (2019) contrasted the findings and noted that higher earning rates is associated with higher dividend levels thus, implying that the current dividend pay-out is highly correlated with future projection of the firm. Researches however, pointed the challenge of the market observers in that observation of the market trends against the behaviour of the dividend levels in the firm is not enough to justify the future growth rates of the firm since such factors vary from one firm to the other (Setiawan et al., 2016).

In Kenya, tea growing is a major economic activity for both small- and large-scale holders and thus the country prides itself as a leading country in tea production (Obara, 2018). The tea sector has been wholly liberated and thus the market is independently operated. However, despite the independence in the company, most estates in the country have been faced by management inconsistencies since operations are unreliable (Langat et al., 2019). In the industry, shareholders lack consistent information on the performance, as a result, they rely on market trends to predict the future growth in the industry. Since dividend is a crucial aspect that investors study to give them direction on whether to invest or not, practitioners have always tried to establish effective approach to understand the earning growth against share earnings (Roy, 2015). However, despite the imperative nature of dividend policy in the industry, little studies have been carried on to understand the effect dividend policy on growth analysis in the tea sectors in Kenya. Thus, the study will examine dividend policy and future growth in the tea sector in Kericho county, Kenya.

Statement of the problem

The question on whether growth in the company affect dividend pay-out in Kenyan tea sector has not been solved for a long time. This is because there is significant variation in prior results across different countries thus researchers have left a huge gap that need to be analysed. Prior studies have been carried out in various sectors and in also in less developed country like Kenya but such studies that directly analyse dividend in the tea factories have been ignored. Payment of dividends to the shareholders and the growth in the factories is crucial and needs to be researched in order to understand the mind of the potential shareholder. Thus, the research is vital to understand dividend pay-out in relation to firm performance and growth. Evaluating growth in relation to dividend pay-out in Kenyan tea factories is crucial in limiting risks and in ensuring efficiency and profit sustainability.

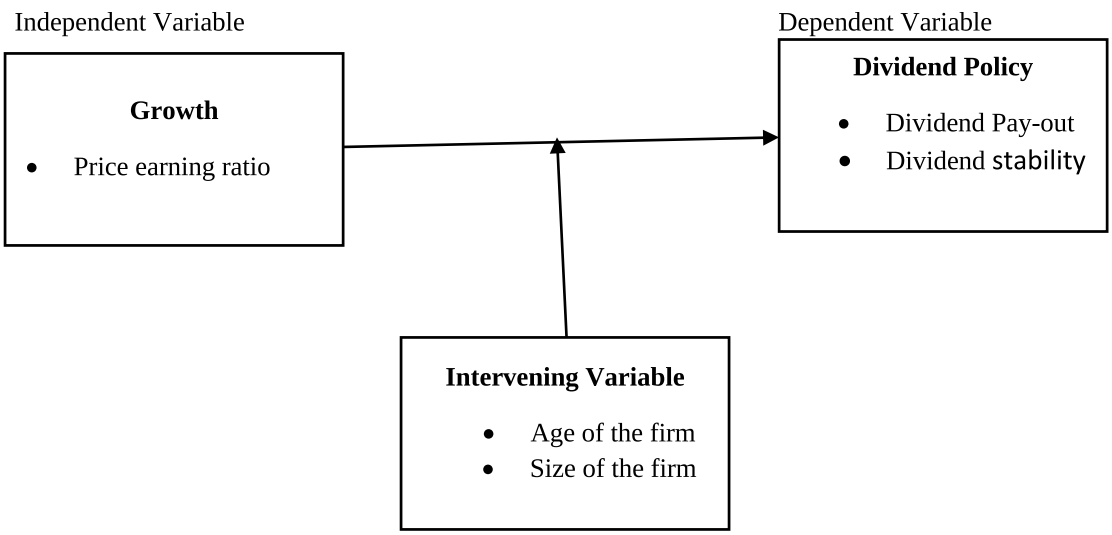
Literature Review.

Signal Theory

The theory was developed by Miller and Modigliani (1961) and they stated that dividends have a signalling effect (Abdullah, 2016). Investors usually forecast the profits of the company and determine its growth rate by analysing their dividend rates. According to Baker et al., (2016), firms have the obligation to distribute dividends among its shareholders and higher dividends distributed imply a positivity in the firm's profitability. Esqueda (2016) noted that dividends have signalling effects since its pay-outs gives information on the firm performance to the market. When firms announce its dividends, its share prices increase and thus shareholders are in position to predict the context of profitability in the firm. Forti and Schiozer (2015) noted that an increase in dividend pay-out is a good sign for the firm therefore increases its goodwill and the reputation of the firm in the mind of the investor thus increase in the share prices and growth in the organization. On the other hand, a cut in the dividends will result to bad reputation which affects the share price and thus growth in the organization.

Conceptual Framework.

According to Kothari (2014), conceptual framework model describes the relationship between the independent and the depend variables under investigation. In the study, the model will link growth as the independent variable and dividend policy. Moderation variable links the independent and the dependent variable under study.



Research design adopted

The study adopted descriptive design to obtain data used to test and evaluate the phenomenon under investigation. Nassaji (2015) noted that the design is more flexible in considering the various parts of the research problem. According to Willis et al., (2016) researchers adopt descriptive design when the phenomenon under investigation requires explanations in its variables under study.

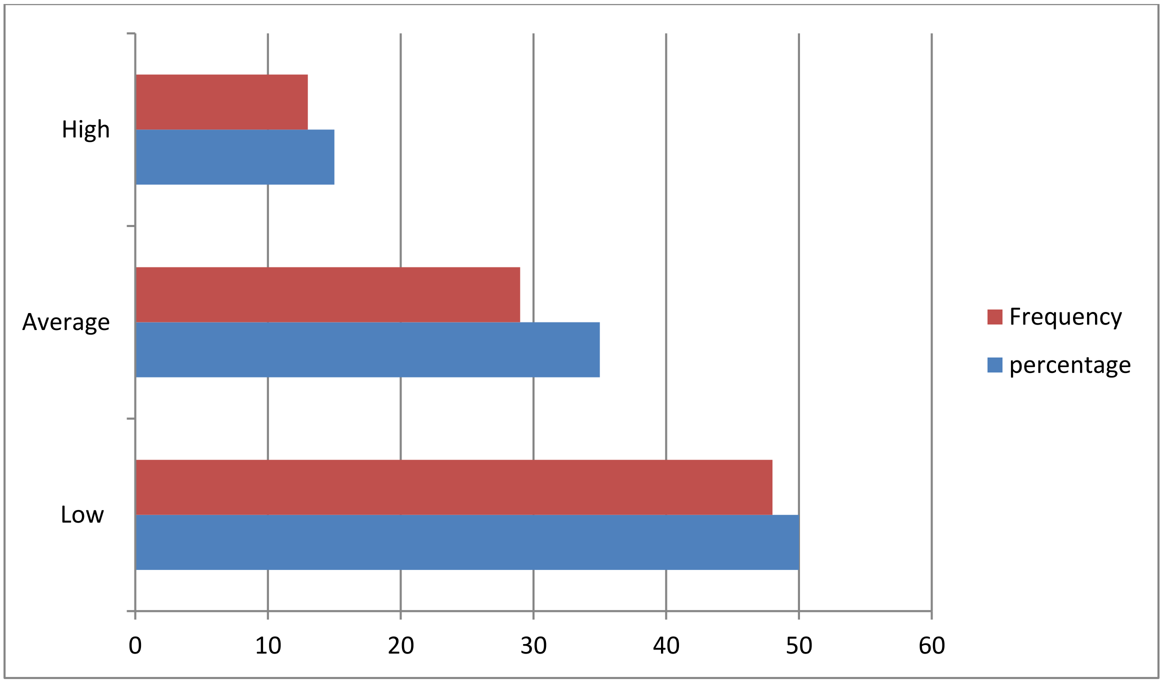
Validity and Reliability

Validity of the instruments was tested to assess the instrument accuracy, the researcher thus sought expert's opinion to assess consistency in results. Further, a pilot test was carried out to ascertain the validity. Reliability refers to international consistency and stability of the research instruments. This was tested using the Cronbach's Alpha coefficient and a figure of 0.801 which was adequate according to Mugenda and Mugenda (2003).

Results and Discussion

Descriptive analysis was adopted to analyse and present the findings.

Response on impact overall growth of the firm on dividend pay-out



Source: Field Data (2019)

The impact of the firm's overall growth was shown to be low at 50%, average rated at 35% and high rated 15% as shown in the above. This shows that tea estate with high growth rate were paying lower dividends than those with lower overall growth rates. Therefore, firms which pay lower dividends to its shareholders retained more for its reinvestments thus the increased rates in the investment needs. The results were consistent with the findings by Bushra and Mirza (2015) that showed a negative relationship between overall growth variables and the dividend pay-out of the firm.

Descriptive Statistics

	N	Minimum	Maximum	Mean	Standard deviation
Growth	7	0.0	85.67	13.9685	18.21197
Dividend	7	0.0	2.50	0.5604	0.70541

Source: field data (2019)

From the results, the depend variable which is the dividend payout has a maximum value of 2.50 and with a minimum of 0.00 presenting a standard deviation of 0.70541. Overall growth value on the other hand showed a variability of 0.0 value on the minimum and 85.67 on the maximum, a standard deviation of 18.21197 and a mean of 13.9685.

Regression Values

Regression Coefficients and their Significance

Regression coefficients		Prob.

Constant	-8.476	.000
Growth X4	-.0865*	0.03

Source: field data (2015)

The regression coefficient for growth at 5% significance level is negative implying that growth of firms has a negative effect on the level of payouts paid to the shareholders. This could be attributed to the fact that most of the profits are retained by the firm to be reinvested or rather kept as capital reserve. The results are consistent with findings by King'wara (2015); Jabbouri (2016); Sinaga (2016) who noted a negative relationship in their findings. On the other hand, Ahmed and Murtaza (2015); Hooi et al., (2015) and Flavin and O'Connor (2017) in their empirical findings noted a positive relationship between growth and dividend payout although their value was insignificant.

Conclusion

From the research findings, the regression value obtained is negative at 5% significance level and thus indicated that the overall growth of the firm affects dividends payout negatively. A firm with growth from its investments will always pay less dividends to the shareholders and instead will distribute security dividends and plough back the profits to any viable venture. This in agreement with residual theory which states that with higher growth opportunities will pay low dividend payout. Growth of firms has a negative relationship with dividends policy of the firm, this imply that with an overall increase I growth will result to reduction in dividend payout.

Recommendations

The firm's overall growth variable has a negative significant effect on the dividend payout, the government therefore should come up policies which include setting up state owned marketing boards, storage places for the farmers' produce, price controls and stabilization to spur growth in the tea estates. This calls for the government to adopt and implement state intervention policies that would guide production of agricultural products considering their perishability. Through this firms can generate funds for their growth while expanding the firm's dividend policy to shareholders.

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