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

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the of the Award of the Degree of Masters of Business
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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.

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Approval

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

Sign…………………… Date …………………

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DEDICATION

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