DIVIDEND POLICY AND OWNERSHIP STRUCTURE OF FIRMS QUOTED AT THE NAIROBI STOCK EXCHANGE

KIPSITET P.E
D/61/P/8753/99

SUPERVISOR: MRS. ANGELA KITHINJI

A MANAGEMENT RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (MBA)

THE SCHOOL OF BUSINESS
UNIVERSITY OF NAIROBI

NOVEMBER 2006

DECLARATION

This Management Research Project is my original work and has not been submitted for a degree in any other University.

Signed _____

EDWIN PSOBOI KIPSITET

Date 23/11/2006

This Management Research Project has been submitted for examination with my approval as the University Supervisor.

Signed _____

ANGELA KITHINJI (MRS)

Lecturer, Department of Accounting and Finance

University of Nairobi

Date 23/11/2006

DEDICATION

This study is dedicated to my late Mum Phoebe Cheptekei who from my very childhood instilled the thirst for knowledge in me, as well as my father Erastus Kirui for his relentless effort to educate me.

To my wife Nancy who constantly encouraged me to finish this project, and Children Sharon, Shillah and Sandra for their patience during the period I was constrained of time. Thank you and may the Almighty God bless you.

ACKNOWLEDGEMENT

I wish to acknowledge the very inspiring role played by several people during my MBA course.

Special thanks to my supervisor Mrs. Angela Kithinji for her invaluable guidance, contribution, support, advice, and patience throughout this project.

Deep gratitude to my family for being very understanding during my long hours I invested in the MBA course.

Thanks to Staff of CMA & NSE for their cooperation during data collection.

Thanks to all my friends and colleagues for their input throughout the course period.

I register my appreciation to all those who, in one – way or other made a contribution to my life during this period.

God bless you all.

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LIST OF ABBREVIATIONS

AIMS	Alternative Investment Market Segment
CEO	Chief Executive Officer
CMA	Capital Markets Authority
DIV	Dividend
DPOR	Dividend Payout Ratio
DPS	Dividend Per Share
DY	Dividend Yield
EPS	Earnings Per Share
FISMS	Fixed Income Securities Market Segment
IPO	Initial Public Offering
MIMS	Main Investment Market Segment
M&M	Miller and Modigliani
MS excel	Microsoft Excel
NSE	Nairobi Stock Exchange
SPSS	Statistical Package for Social Scientists
UK	United Kingdom
US	United States of America

ABSTRACT

This study investigates the relationship between ownership structure and dividend payout ratio of quoted firms in Kenya. The population of the study is all the listed companies at NSE over the 8 – year period (1998 – 2005), and the data on DPOR was obtained from annual financial statements and ownership structure was obtained from CMA and NSE. The MS excel was used to analyze the data and the Chi-Squared test of independence was used to test the hypothesis.

The ownership structure of firms listed in Kenya is mixed with institutional investors dominating, owning an average of 40%, foreign ownership 35%, individuals 17% with state owning 8%. The average DPOR of listed firms in Kenya is 56% with firms dominated by foreigners having a DPOR of 66%, local institutions 49%, individual controlled firms 39% while state owned firms 19%. From the firms studied, 13.8% paid dividend despite the fact that they had negative EPS indicating management's reluctance to do away with a dividend.

The results of the study suggest that the influence of the state shareholder, individuals, and foreigners to firm's DPOR is insignificant if not completely irrelevant. However, it was found that local institutional investors have a significant impact on the DPOR, and this supports findings by Eckbo and Verma (1994) that large institutional stakes are associated with higher payout.

It is therefore recommended that appropriate policy measures are pursued to increase mobilization of funds from both the individual and institutional investors. Awareness programs need to be strengthened in regard to the role and importance of capital markets. Similarly, fiscal incentives on dividend income should be reviewed given that management is reluctant to omit dividend even when the firm is making losses.

CHAPTER ONE

1.0 INTRODUCTION

1.1 Background to the Study

Dividend policy is one of the major decisions that companies normally make. Dividend policy is about the division of earnings between payments to shareholders and re-investment in the firm and payout may be constant, decreasing, increasing or non-existence over time. Dividend policy can also be defined as "a firm's plan of action adopted by its directors whenever the dividend decision has to be made" (McMenamin, 1999). The debate as to whether dividend policy matters has become a major issue of interest in the financial literature for a period spanning more than half a century. The seminal work by Miller and Modigliani (1958, 1961) established that, under restrictive conditions, when investment policy is held constant, a firm's dividend policy does not affect shareholder wealth because higher dividend payouts lead to lower retained earnings and capital gains, leaving the wealth of shareholders unchanged. Motivated by Lintner's (1956) finding that firm follows well-considered payout strategies; financial theory has offered a range of explanations for dividend policies.

Black (1976) poses two questions i.e. "why do corporations pay dividends?" Secondly "why do investors pay attention to dividends?" Black states that: *"The harder we look at the dividend picture, the more it seems like a puzzle, with pieces that don't fit together".*

After three decades since Black's paper, the dividend puzzle persists. Recently in the same vein as Black, Frankfurther et al. (2002) concluded that the dividend "puzzle" both as a share value-enhancing feature and as a matter of policy is one of the most challenging topics of modern finance/financial economics.

The main theories of dividend policy which have evolved are; the residual theory, the Miller and Modigliani (M & M) irrelevance theory, the bird in the hand theory, dividend signaling theory, the dividend clientele effect, and agency cost (McMenamin, 1999).

However, the signaling theory and agency cost theory have emerged as the popular theories on dividend payouts. The signaling theory argues that firms can convey information about future profitability and cash flows to the market by paying dividends (Asquith and Mullins, 1983; Miller and Rock, 1985). Dividend payout guarantees equal payout for both insider and outsider equity holders. However, evidence on the relation between dividends and earnings, yield mixed results, as the changes of dividends payout do not necessarily mean the changes of companies' future earnings. Benartzi, Michaely, and Thalor (1997) find no evidence that changes in dividends have information content about future earnings changes.

The agency cost theory on the other hand concentrates on the different incentives of inside managers and outside shareholders and the role of dividends (Easterbrook, 1984; Jensen, 1986; Lang and Litzenberger, 1989). According to the theory, in order to reduce the amount of free cash flow which may be wasted by insiders or committed to unprofitable projects, dividends payout forces managers to abide by the discipline of financial markets. As a result, the outsiders prefer dividend to retained earnings. It also predicts that dividend change announcements should be positively (negatively) associated with stock returns because higher (lower) dividend reduces (increases) managers' tendency to divert free cash.

Trojanowski (2004) establishes that the payout policy in UK is significantly related to ownership of companies. However, the presence of strong block holder or block holder coalitions (in particular, executive directors, financial institutions and other industrial firms) weakens the relationship between corporate earnings and the payout dynamics.

Wei (2003) establishes that in China the higher the state ownership, the higher cash dividends rates, and the higher the public ownership, the higher stock dividends rates. In particular, they find that the relation between dividends policy and ownership structure is non-linear.

Kumar Jayesh (2003) based on ownership structure and dividend payout in India observes that ownership structure is one of the important variables that influence, though not uniformly the dividend payout policies. Whereas ownership by the corporate and directors is positively related with dividends payout level, no evidence is established in favor of association between foreign ownership and dividend payout growth.

Mollah, Keasey, and Short (2000), based on a study of Dhaka stock exchange, an emerging market, they demonstrate that firms pay higher amount of dividends as monitoring and bonding package when insiders hold a lower percentage of common stock and/or greater number of common stocks held by outsiders to reduce agency cost.

The capital markets in Kenya dates back to 1950s when the Nairobi Stock Exchange (NSE) was established. However, for over three decades the capital markets witnessed limited activity and until 1989 when the Capital Markets Authority was created through an act of parliament Cap 485A. The Capital Markets Authority (CMA) was created and charged with the responsibility of promoting and facilitating the development of orderly, fair and efficient capital markets in Kenya. It is from 1990s that the capital markets in Kenya emerged as a critical pillar of economic development supported by issuance of a set of various regulations (CMA various annual reports).

In 2001 the NSE market was reorganized into three distinct market segments, namely: Main Investment Market Segment (MIMS), Alternative Investment Market Segment (AIMS) and Fixed Income Securities Market Segment (FISMS). The classification is based on share capital and net assets with companies on MIMS having at least a share capital of Kshs 50 million and net assets valued at Kshs 100 million. Companies listed on AIMS have share

capital of Kshs 20 million and net assets valued at Kshs 20 million. The FISMS is for treasury bonds, corporate bonds and preference shares (Capital Markets Public Offers and Listing Disclosures Regulations, 2002).

1.2 Statement of the Problem

Empirical research on corporate governance and dividend payout policy has been concentrated in developed stock markets such as the US, UK among others with limited focus on emerging markets.

Trojanowski (2004) establishes that the payout policy in UK is significantly related to ownership of companies. Miller and Modigliani (1961) observe that the dividend policy of the firm in isolation is irrelevant to its valuation. The issue of dividend policy is one of the enduring topics in modern corporate finance. This has led to the emergence of a number of competing theoretical explanations for dividend policy. However, no consensus has emerged about the rival theoretical approaches to dividend policy despite several decades of research.

Ochola (2005) in his study on "Shareholders' pressure on firms' decision to pay dividends at Nairobi Stock Exchange", concluded that speculators identify non-payers that are likely to pay dividends, and by paying a high price, put pressure on shares of such firms by way of additional demand and consequently on corporate managers to pay dividends.

Karanja (1987) observes that companies in Kenya which are controlled from overseas distribute higher percentages of their earnings as dividends than locally controlled ones.

Shleifer and Vishny (1986) argues that small shareholders (rather than management) seek a high level of payout to attract and compensate large shareholders (e.g. institutions) for performing the role of monitoring the management, implying that individual ownership may be positively related to dividend payout ratios which may also positively influence institutional ownership.

Wei (2003) establishes that in China the higher the state ownership, the higher the cash dividends rates.

However, Glen, Karmokolias, Miller and Shah (1995) noted that investors in developed countries often hold stock of developing countries for its long run growth. Such that if developing countries' stock is held for growth rather than for income, then this suggests a negative relation between foreign ownership and the payout ratio.

In the absence of consensus on dividend policy and ownership structure as noted above, this study will examine whether differences in ownership structure across companies can explain their dividend payout differences in Kenya.

The research will attempt to answer the following questions:

- Is the dividend payout of firms controlled by foreign investors higher than firms controlled by local investors?
- Is there a significant difference in dividend payout between firms controlled by institutional investors and firms controlled by individual investors?
- Is there a significant difference in dividend payout between firms controlled by state and firms controlled by institutional investors?

1.3 Objective of the Study

The objective of the study is to:

Determine whether there is a relationship between ownership structure and dividend payout ratio of quoted firms in Kenya.

1.4 Importance of the Study

The findings of this study will be important to:

Management

The study will be useful to management of various organizations as it will give an insight into the shareholding structure and how it relates with dividend policies.

Investors

The current and potential investors in shares of listed companies will find the study useful in identifying the companies to invest in depending on their preferred dividend payout ratio.

Government

The government will find the study useful in fostering mobilization of savings for long-term development through putting in place appropriate fiscal and policy interventions.

Academicians

The scholars and academicians who may wish to conduct further research in this area, as the study will also provide evidence of the relationship between ownership structure and dividends payout of listed companies for an emerging economy such as Kenya. Similarly, the study will provide evidence from listed companies of an emerging economy based on agency theory where there is limited empirical evidence on corporate governance issues.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Dividend Policies

The firm's dividend policy represents a plan of action to be followed whenever the dividend decision must be made (Gitman, 1997). The dividend policy must be formulated with two basic objectives in mind; maximizing the wealth of the firm's owners and providing for sufficient financing.

Corporations view the dividend decision as quite important because it determines the funds that flow to investors and the funds that are retained by the firm for reinvestment. The term dividend usually refers to cash distributions of earnings. However, it is also acceptable to refer a distribution from earnings as a dividend and a distribution from capital as a liquidating dividend. More generally, any direct payment by the firm to the shareholders may be considered part of dividend policy (Ross, Westerfield and Jaffe, 1990). The most common type of dividends is in the form of cash. Most public companies pay regular cash dividend four times in a year or quarterly. Sometimes firms will pay a regular cash dividends and extra cash dividends and such payment reduces corporate cash and retained earnings.

There are three commonly used dividend policies, namely; constant – payout ratio dividend policy, regular dividend policy and low – regular and – extra dividend policy (Gitman, 1997).

2.1.1 Constant – payout ratio dividend policy

Occasionally firms use constant payout ratio. The payout ratio, calculated by dividing the firm's cash dividends per share (DPS) by its earnings per share (EPS), indicates the percentage of each dollar earned that is distributed to the owners in the form of cash. With a constant payout ratio dividend policy, the firm establishes that a certain percentage of earnings are paid to owners in each dividend period. However, the problem with this policy is that whenever

earnings fluctuate or a loss is incurred, it will affect the dividend received by the stockholders and subsequently stock prices (Gitman, 1997).

2.1.2 Regular dividend policy

The regular dividend policy is based on the payment of a fixed-dollar in each period. The term regular merely indicates that the company expects that it will be able to maintain the payment in the future. This policy provides the owners with generally positive information, indicating that the firm is okay and thereby minimizing their uncertainty. Often, firms using this policy increase the regular dividend once a proven increase in earnings has occurred. Under this policy, dividends are almost never decreased; this policy is built around a target dividend payout ratio (Brealey and Myers, 1981).

2.1.3 Low – regular and – extra dividend policy

Some firms establish a low - regular and – extra dividend policy, paying a low regular dividend, supplemented by an additional dividend when earnings warrant it. When earnings are higher than normal in a given period, the firm pays this additional dividend, which is designated as extra dividend. As a result, investors in this case will understand that the extra dividend may not be repeated. By designating the amount by which the dividend exceeds the regular payment as an extra dividend, the firm avoids giving shareholders false hopes. The use of the "extra" designation is especially common among companies that experience cyclical shifts in earnings. By establishing a low regular dividend that is paid each period, the firm gives investors the stable income necessary to build confidence in the firm, and the extra dividend permits them to share in earnings if the firm experiences an especially good period (Brealey and Myers, 1981).

2.2 Other Forms of Dividend Payments

The other forms through which firms distribute dividends to their shareholders include; stock dividends, stock splits and stock repurchases (Gitman, 1997).

2.2.1 Stock dividend

Stock dividend also commonly known as capitalization or a bonus issue is another type of dividend paid out in form of shares. It is not a true dividend, because no cash leaves the firm. Rather, a stock dividend increases the number of shares outstanding, thereby reducing the value of each share. A stock dividend is commonly expressed as a ratio, for instance a 4 – percent stock dividend; a stockholder receives one new share for every 25 currently owned. Often, firms pay stock dividends as a replacement for or a supplement to cash dividend (Ross, Westerfield and Jaffe, 1990).

2.2.2 Stock split

A stock split is almost the same as a stock dividend except that in a stock split the nominal (par) value of a share is reduced resulting in increased number of shares. Because each share is entitled to a smaller percentage of the firm's cash flow, the stock price is expected to fall.

The stock dividend and stock split are more or less the same, as both actions amount to a division of the pie into smaller slices without affecting the fundamental position of the current stockholders. Firms undertake either a stock split or stock dividend action when prices run-up. The aim is to keep stock prices within an optimal range, and to increase outstanding shares for purposes of promoting active trading in a securities exchange (Gitman, 1997).

2.2.3 Stocks repurchase

A firm buys back some of its outstanding stocks, thereby decreasing the number of shares, which in turn, increase both earnings per share and the stock price. Repurchases are useful for making major changes in a firm's capital structure, as well as for distributing temporary excess cash. Some of the motives for a firm to undertake stock repurchase include; obtaining shares to be used in acquisition, to obtain shares for employees and to discourage unfriendly takeovers, i.e. by reducing the number of publicly traded shares it is unlikely that a corporate raider can gain control of the firm. Grullon and Michaely (2002) show that repurchases have not only become an important form of payout for US corporations, but also that firms finance their

repurchases with funds that otherwise would have been used to increase dividends.

2.3 Dividend Payment Dates

The practice is that the decision whether to pay dividend or not rests in the hands of the board of directors of the firm. A dividend is distributable to shareholders of record on a specific date. When a dividend has been declared, it becomes a liability of the firm and cannot be easily rescinded by the firm. For an investor to be entitled to receive dividend, declaration date, date of record, ex-dividend date, and payment date are put into consideration (Ross, Westerfield and Jaffe, 1990).

Declaration date; as an illustration; on March 15 (declaration date), the board of directors meets and passes a resolution to pay dividend of US $ 2 per share on April 16 to all holders of record on March 30.

Date of record; this refers to a record prepared on 30 March by the firm on all individuals believed to be stockholders who are entitled to receive dividends.

Ex-dividend date; the procedure on the date of record would be unfair if sufficient brokerage houses could notify the firm by March 30 of a trade occurring on March 29, whereas the same trade might not reach the firm until April 2 if executed by a less efficient house. To eliminate this problem, all brokerage firms entitle stockholders to receive the dividend if they purchased the stock five business days before the date of record. The fourth day before the date of record, which in this illustration is Monday, March 26, is called ex-dividend date. Before this date the stock is said to trade cum-dividend.

The ex-dividend date is important, because an individual purchasing the security before ex-dividend date will receive the current dividend, as the stock is trading cum-dividend, whereas another individual purchasing the securities on or after this date will not receive the dividend. This explains why (assuming the absence of any other relevant factors) there is usually a drop in a share's

price, roughly equivalent to the value of dividend per share, when the share goes ex-dividend (McMenamin, 1999).

Date of payment; this refers to the date the company sends dividend cheques to shareholders as per date of record and in reference to this illustration the date of payment is 16 April.

2.4 Indicators of Dividend Payments

The common indicators associated with corporate dividends include dividend yield, dividend per share, earnings per share and dividend payout ratio.

Dividend Per Share (DPS); the DPS is a simple and intuitive number. It is the amount of dividend that a shareholder will receive for each share they own. The total amount of the dividends received divided by the number of shares in issue.

$$DPS = \frac{\text{Total dividends}}{\text{Total number of shares in issue}}$$

Dividend Yield (DY); the DY is often referred to simply as yield. It is calculate by taking dividends paid per share over the course of a year and dividing by the current share price (Ross, Westerfield and Jaffe, 1990).

$$\text{Dividend Yield} = \frac{\text{Annual Dividend Per Share}}{\text{Current price per share}} \quad \text{or}$$

$$DY = \frac{DPS}{\text{Market price per share}}$$

The dividend yield measures the return (dividend) received by the investor (ordinary shareholder) in relation to a share's market price (McMenamin, 1999).

Elton and Gruber (1970) attempt to measure clientele effects by observing the average price decline when a stock goes ex-dividend. Using 4148 observations between April1, 1966, and March 31, 1967, they discovered that

the average price decline as a percentage of dividend paid was 77.7%. They argue that:

-------*"the lower a firm's yield the smaller the percentage of his total return that a stockholder expects to receive in the form of dividends and the larger the percentage he expects to receive from capital gains. Therefore, investors who held stocks which have high dividends should be low in tax-brackets relative to stockholders who hold stocks with low dividend yield".*

Earnings Per Share (EPS); the EPS refers to the total earnings attributable to shareholders divided by the total number of shares in issue.

$$EPS = \frac{\text{Earnings attributable to ordinary shareholders}}{\text{Total number of shares in issue}}$$

Dividend Payout Ratio (DPOR); the company's divided per share (DPS), expressed as a proportion of its earnings per share (EPS) is referred to dividend payout ratio (McMenamin, 1999)

This can also be expressed as, $DPOR = \frac{DPS}{EPS}$

The dividend payout reduces the amount of earnings retained in the firm and affects the total amount of internal financing. The Dividend Payout Ratio (DPOR) obviously depends on the way earnings are measured. The accounting net earnings method is with an assumption that these earnings conform to true economic earnings. On the other hand, certain writers argue that cash flow, the sum of earnings and depreciation, is better measure of the capacity of a firm to pay dividend (Van Horne, 1997).

2.5 How Companies Decide on Dividend Payments

Lintner (1956) surveyed corporate chief executives officers and chief financial officers and found that dividend policy is an active decision variable because managers believe that stable dividends lessen negative investor reactions. The active determination of dividend policy implies that the level of retained earnings and savings is a dividend decision byproduct.

Marsh and Merton (1987) have summarized Lintner's findings on how dividends are determined in four "stylized facts", by observing that;

Firstly, firms have long-run target dividend payout ratios;

Secondly, managers focus more on dividend changes than on absolute levels. Thus, paying $ 3.00 dividend is an important financial decision if last year's dividend was $ 2.00, but no big deal if last year's dividend was $ 3.00;

Thirdly, dividend changes follow shifts in long run sustainable earnings, as managers' aim at "smooth" dividends. Transitory earnings changes are unlikely to affect dividend payouts; and

Fourthly, managers are reluctant to make dividend changes that might have to be reversed. They are particularly worried about having to rescind a dividend increase.

Arising from a series of studies, Lintner (1956) developed a simple model, which is consistent with these facts and explains dividend payments well. For instance, a firm is likely to be always stuck to its target payout ratio. In his model the dividend payment in the coming year (DIV_1) would equal a constant proportion of earnings per share (EPS_1)

DIV_1 = target dividend

= target ratio x EPS_1

In this case the target dividend can also be expressed as the ratio of dividend per share to earnings per share. It shows the proportion of earnings that are paid out as dividends and how much is retained.

The dividend change would equal

$DIV_1 - DIV_0$ = target change

= target ratio x $EPS_1 - DIV_0$

$DIV_1 - DIV_0$ = adjusted rate x target change

= adjusted rate x (target ratio x $EPS_1 - DIV_0$)

The more conservative the company, the more slowly it would move toward its target and therefore, the lower would be its adjusted rate. Lintner's simple model suggests that the dividend depends in part on the firm's current earnings and in part on the dividend for the previous year, which in turn, depends on that year's earnings and the dividend in the year before.

2.6 Determinants of Dividend Payments

There are a number of factors that influence the formulation of dividend policy that managers consider in determining how much to be distributed to shareholders as cash dividend. These factors include bond indentures, preferred stock restrictions, impairment of capital rule, availability of cash, penalty tax on improperly accumulated earnings, control and signaling (Brigham and Gapenski, 1997).

Bond indentures; debt contracts often restrict dividend payments to earnings generated after the loan was granted. Also debt contracts frequently stipulate that no dividends can be paid unless the current ratios, the times-interest earned ratio, and other safety ratios exceed stated minimum.

Preferred stock restrictions; typically, common dividends cannot be paid if the company has omitted its preferred dividend. The preferred averages must be satisfied before common dividend can be resumed.

Impairment of capital rule; dividend payment cannot exceed the balance sheet item, "retained earnings". The legal restriction, known as the "impairment of capital rule", is designed to protect creditors. (Liquidating dividends can be paid out of capital, but they must be indicated as such and stated in the firm's debt contracts).

Availability of cash; cash dividends can only be paid with cash. Thus, a shortage of cash in the bank can restrict dividend payments. However, unused borrowing capacity can offset this factor.

Penalty tax on improperly accumulated earnings; to prevent wealthy individuals from using corporations to avoid personal taxes, the tax code provides for a special surtax on improperly accumulated income. Thus, if the revenue authorities can demonstrate that the dividend payout ratio is being deliberately held down to help stockholders avoid personal taxes; heavy penalties will be imposed on the firm. However, as a practical matter, the penalty has been applied only to privately owned firms.

Control; if management is concerned about maintaining control, it may be reluctant to sell new stocks; hence it may retain more earnings than it otherwise would. This factor is especially important for small, closely held firms.

Signaling; managers can and do use dividends to signal the firm's situation. For example, if management thinks that investors do not fully understand how well the firm is doing, and how good its prospects are, it may increase the dividend by more than anticipated in an effort to boost the stock price.

Profitability; a number of companies appear to follow the policy of a target-payout ratio over the long run as documented by Lintner (1956). However, a company cannot pay dividends indefinitely unless there is profitability. In an empirical test, DeAngelo, DeAnagelo, and Skinner (1992) find that 51 percent of companies experiencing losses reduce their dividend in the initial loss year. They claim that a loss is a necessary condition for dividend restrictions, but not a sufficient reason. They support the view of Lintner's target – payout notion. Rather omit dividends in the face of financial distress; the majority of companies reduce them, indicating managerial reluctance to do away with a dividend.

2.7 Dividend Theories

Corporate dividend policy has been an issue in the financial literature for over five decades. Fisher (1985) and Smith (1990) wondered why companies and investors pay attention to dividend policy. The debate on dividend policy has seen different theories being advanced. Some of these theories have attempted to justify why dividend policy is important whereas on the other hand there has been a school of thought that says the dividend policy does not matter and therefore it needs not receive much attention.

2.7.1 Dividend irrelevance

Miller and Modigliani (1961) argue that dividend policy has no effect on either the price of a firm's stock or on its cost of capital. Since a firm's value is determined by its investment policy and the manner in which the earnings stream is split between retained earnings and dividends does not affect this value. MM demonstrates that under a particular set of assumptions that if a firm pays higher dividends, then it must sell more stock to new investors and the share of the value of the company given up to the new investors is exactly equal to the dividend paid out. They argue that investors are able to replicate any dividend streams that corporations might be able to pay. Such that if dividends are lower than desired, investors can sell some of their shares to obtain their desired dividends and if the dividends are higher than desired, investors can use the dividends to purchase additional shares in the company (home-made dividends). Because investors are able to manufacture homemade dividends, which are perfect substitutes to corporate dividends, then dividend policy is irrelevant. Given that a firm is not able to increase its value by simply altering the mix of dividends and retained earnings. Investors concerns are about total returns that they receive, not whether they receive those returns in form of dividends or capital gains.

However, MM's (1961) theory has heavily been criticized for being unrealistic in the real world, as we know it, investors pay taxes, firms incur floatation costs and investors incur transaction costs. This implies that payments of dividends and substituting with new issues are not the same.

2.7.2 Bird – in the hand theory

Krishman (1933) and Gordon (1963) argue that investors prefer to receive dividends 'today' because current dividends are more certain than future capital gains that might result from investing retained earnings in growth opportunities. They argue that the cost of capital should decrease as the pay out ratio increases. Given that Investors value a dollar of expected dividend more highly than a dollar of capital gains because dividends are less risky than capital gain. Therefore, one bird –in the hand (certain dividends) is better than two in the bush (uncertain capital gains). However, Pettit (1977) establishes that stocks with low dividend yield attract investors with high income, whereas retired individuals require current incomes. It may therefore imply that a firm with different categories of shareholders would not necessarily prefer dividends as their risks and preferences are not the same.

2.7.3 Tax differential theory

Litzenberger and Ramaswamy (1979) argue that investors prefer one dividend policy to another because of the tax effect on dividend receipts. Investors must pay taxes at the time dividend and capital gains are received. Taxes on dividends must be paid in the same year when dividends are received whereas capital gains (where taxed) are not until investments are sold. Depending on an investor's tax position, he may prefer either payout of current earnings as dividends or capital gains associated with the stock value.

2.7.4 Information signaling effect theory

Solomon (1963) and Ross (1977) observe that increase in dividends is often accompanied by increases in the prices of stocks while a decline in dividends generally leads to a stock price decline. The payment of dividend is seen to convey to shareholders that the company is profitable and financially strong. Ross (1977) observes that in an inefficient market, management can use dividend policy to signal important information to the market, which is only known to them. For instance, if management pays high dividends, it signals high-expected profits in future to maintain the high dividend level. Solomon (1963) states, "In an uncertain world in which verbal statements may be

misinterpreted or ignored, dividend action does provide a clear cut means of making a statement that speaks louder than a thousand words". Asquith and Mullins (1983) estimate that stock prices rise about 3 percent following announcement of dividend initiations. Healy and Palepu (1988) and Michaely, Thalor and Womack (1995) find that price fall about 7 percent following announcement of dividend omissions. Watts (1973) observed that initiating a dividend increases the share price and cutting a dividend generally leads to a price decline, thus demonstrating the signaling effect of dividend policy.

However, Kumar Jayesh (2003) observes that shareholders with majority ownership normally exercise control over key decisions, which may include dividend payments and such action may not be associated with existence of any material information.

In their revolutionary paper of 1961, MM argued that dividends did not convey any useful information to the investors and hence was a rejection of the "information content of dividends hypothesis". MM invoked the assumption of perfect capital market where "all traders in the stock market" have equal access to information about the ruling price and about all other relevant characteristics of shares.

2.7.5 Agency theory

The agency cost has been observed as an implicit cost which, usually arises for the conflict between managers and shareholders. The payment of dividend reduces the agency problem between managers and shareholders by reducing the discretionary funds available to managers (Jensen and Meckling. 1976; Rozeff, 1982; Easterbrook, (1984). Jensen (1986) documents further that if firms have free cash flows then the firms pay dividends or retire debts to reduce the agency cost of free cash flow. Further, a similar type of conflict exists between shareholders and bondholders because shareholders can expropriate wealth from bondholders by paying themselves dividends. Moreover, bondholders try to contain this problem through restrictions in dividend payments in the bond indenture (Kalay, 1982).

Easterbrook (1984) views that firms payout dividends in order to reduce agency costs, because payments of dividends reduce the discretionary funds available to managers. The motivation behind the Easterbrook's (1984) agency explanation of payout is that capital market participants have better skills and/or incentives to monitor management, than incumbent shareholders do. By demanding a high payout, the incumbent forces the firm to seek refinancing and, consequently, delegate the monitoring task to new fund providers.

2.7.6 Clientele effect theory

This theory was advanced by Pettit in 1977. It states that different groups or clienteles of stakeholders prefer different dividend payout policies depending on their level of income from other sources of income. Low-income earners prefer high dividends to meet their daily consumption while high-income earners prefer low dividends to avoid payment of more taxes. Therefore when a firm sets a dividend policy, there will be shifting of investors into and out of the firm until equilibrium is achieved. Pettit (1977) tested for dividend clientele effects by examining the portfolio positions of approximately 914 individual accounts handled by a large retail brokerage house between 1964 and 1970. He argues that stocks with low dividend yields will be preferred by investors with high income, by younger investors, by investors whose ordinary and capital gains tax rates differ substantially, and investors whose portfolios have high systematic risk.

The retired individuals and university endowment funds generally prefer current incomes, so they may want the firm to pay out a high percentage of earnings. Such investors (and also pension funds) are often in a low or even zero tax brackets, so taxes are of no concern. On the other hand, stockholders in the peak earning years might prefer reinvestment, because they have less need for current investment income and would simply reinvest any dividends received after first paying income taxes on the dividend income. Evidence from several studies suggests that there is in fact a clientele effect. MM (1961) argues that one clientele is as good as another, so the existence of clientele effect does not necessarily imply that one dividend policy is better

than any other. MM may be wrong, though, no one has offered proof that the aggregate makeup of investors permits firms to disregard clientele effects, as this issue, like most others in the dividend arena, is still up in the air (Brigham and Gapenski, 1997).

2.7.7 Residual theory

One of the most perplexing issues in dividend policy is why firms pay dividends and almost simultaneously issue new securities. Since the cost of issuing securities can be substantial, total corporate issue cost would be minimized by paying dividends only if investment opportunities were so poor that the full amount of net income could not be productively reinvested with the firm (Brigham and Gapenski, 1997).

This theory recognizes that a firm will pay dividend from residual earnings, that is, earnings remaining after all suitable projects with positive net present value have been finalized. It assumes that earnings are the best source of long-term capital since it is readily available and cheap. Walter (1963) argues that the choice of dividend policies affect the value of the return on assets. The dividend policy of the company depends on the availability of investment opportunities and concludes that dividend payment to be undertaken when the internal rate of return is less than the cost of capital.

2.8 Agency Theory and Dividend Policy; further empirical evidence

Jensen and Smith (2000) define agency relationship as a contract in which one or more persons (the principals) engage another person (the agent) to take actions on behalf of the principal that involves the delegation of some decision-making authority to the agent. Earlier, Jensen and Meckling (1976) had defined agency costs as the sum of the out of pocket costs of structuring, administrating and enforcing contracts plus the residual loss. Enforcement costs include both monitoring and binding costs, that is, the resources expended by the principal and agent, respectively, to ensure contract enforcement. It pays to expend resources on enforcement only to point where the reduction in the loss from noncompliance equals the increase in enforcement costs. The residual loss represents the opportunity loss when

contracts are optimally but imperfectly enforced. Thus agency costs include all costs frequently referred to as contracting cost, transaction costs, moral hazard costs and information costs.

However, Rozeff (1982) was among the first to explicitly recognize the role of insiders as one of monitoring the managers. Companies establish higher dividend payout when insiders hold a lower fraction of the equity and/or greater number of stockholders owns the outside equity. Rozeff (1982) observed that higher dividend payments reduce agency conflicts between managers and shareholders.

Jensen's (1986) "free cash flow" hypothesis indicates that when a firm has cash in excess of what is required to finance positive net present value projects, it is better for managers to return the excess cash to shareholders as dividends in order to maximize shareholders wealth. Otherwise, he argues, the existence of free cash flow lead to management to undertake suboptimal investment projects. Gugler and Yurtoglu (2003) observe that dividend payouts decrease with an increase in the control of stake of the largest shareholder. It may therefore imply that existence of free cash flow is largely attributed to shareholders influence, which through their strong representation on the board would ensure such funds are put to profitable use.

Titman and Wassels (1988) argue that firms that hold more collecterizable assets have fewer agency problems between their bondholders and stockholders because these assets may serve as collateral against borrowing. Therefore, they found a significantly positive relationship between collecterizable assets and dividend payout ratio.

In another set of agency theory models, the dividend policy can be seen as a substitute for the conflict of interest between insiders and outsiders. In Zwiebel (1996), managers voluntarily pay dividends in order to avert challenges for control. Myers (2000) proposes that managers can continue in their current positions only if outside equity investors believe that corporate insiders will pay future dividends.

Gomes (2000) focuses on the conflict of interest between controlling shareholders and minority shareholders, and argues that controlling shareholders can implicitly commit not to expropriate outside shareholders. More specifically, Gomes (2000) claims that managers can develop a reputation for treating outside shareholders well. He proposes that it is the multi-period nature of the realization of cash flows and the trading of shares that allows managers to commit unreservedly not to expropriate outside shareholders. However, large shareholders or coalition of large shareholders have preference and ability not to pay out profits as pro-rata distributions to all shareholders, but rather to pay themselves only in form of private benefits of control.

According to Shleifer and Vishny (1997), controlling shareholders can extract private benefits for instance by exploiting business relationships with the companies they control. The presence of such controlling shareholder who is keen on other benefits may result in a firm paying less or no dividends at all.

2.9 Ownership and Dividend Policy; further empirical evidence

Institutional ownership for a firm has an implication for its agency cost. Shleifer and Vishny (1986), Brickley, Lease, and Smith (1988) argue that institutional owners help resolve agency problems by monitoring management. Institutions are seen as professional decision – makers who know how to assess the performance of the firm and to monitor the management. As a result, the degree of institutional ownership may have an effect on agency costs, and consequently on dividend policy. Miller and Scholes, (1982) and Lakonishok and Versmaelen (1986) observed that institutional investors have an incentive to receive dividends rather than capital gains under the US tax system in which a significant portion of dividend income is exempt from taxation for institutions.

Shleifer and Vishny (1986) argue further that small shareholders (rather than management) seek a high level of payout to attract and compensate large shareholders (e.g. institutions) for performing the role of monitoring the management.

Gugler and Yurtoglu (2003) claim that dividend payouts decrease with an increase in the control stake of the largest shareholder, whereas the size of the second largest shareholder is positively related to dividend payouts.

However, Eckbo and Verma (1994) observe that large institutional stakes are associated with higher payout. High payout in companies with considerable ownership is consistent with the idea that dividend are used as a way of compensating block holders for their monitoring activities (Shleifer and Vishny, 1986).

However, Trojanowski (2004) establishes that the payout in the UK is significantly related to the ownership of the companies. The presence of strong block holders or block holders' coalition (in particular, executive directors, financial institutions and other industrial firms) weakens the relationship between the corporate earnings and the payout dynamics. Two possible explanations to these findings are given i.e. ownership concentration and high payout may serve as alternative signaling mechanisms. Secondly, the presence of a strong block holder (or a block holder coalition) mitigates the agency problems between managers and outside shareholders (the free cash flow problem) and, consequently, renders the internal sources of financing attractive. Thus, the results favor a pecking order explanation for the observed payout patterns.

A number of studies for the UK show that there is a negative relationship between 'inside' ownership and dividends (Short, Zhang and Keasey, 2002, Renneboog and Trojanowski 2005, Farinha, 2003). However, evidence regarding financial institutions is not only limited but also contradictory; Short, Zhang and Keasey report a positive relationship between dividends and shareholding by financial institutions while Renneboog and Trojanowski find a negative one.

Khan (2005) while studying 350 large industrial firms quoted in the UK stock exchange over the period 1985 – 1997 establishes that there is negative relationship between dividends and ownership concentration. He also notes

that ownership composition matter, with positive relationship observed for shareholding by insurance companies, and a negative one for individuals.

Thomsen (2004) in studying blockholder ownership, dividend and firm value in continental Europe establishes that blockholder ownership has a negative effect on dividend payout ratios. The findings indicate that concentrated ownership leads to a preference for retained earnings. He concludes that if dividends function as a way for managers to signal their commitment to future shareholder value creation, then it may not be necessary to payout large dividends in firms, whose commitment to shareholders value is already secured by the presence of large blockholders. Therefore the "substitution argument" (blockholder substitutes for dividends) would imply a negative effect of blockholder ownership on dividends.

Travlos, Trigeorgis and Vafeas (2001) while studying shareholder wealth effects of dividend policy changes in Cyprus stock market observes that there is positive stock market reaction to cash dividend increase which is at odds with a tax-motivated shareholder preference for (non-taxable) capital gains over dividend income, but is consistent with information – signaling role for cash dividend increases. However over-investment explanation was found to be less likely to directly influence dividend setting in Cyprus due to concentrated ownership structure. The positive reaction is seen to be consistent with a reduction in potential exploitation of smaller shareholders by larger ones.

In comparing dividend policy of companies from eight emerging markets to the policies adopted by 100 US firms over the same period, Aivazian, Booth and Cleary (2002) note that firms in emerging markets have more unstable dividend payments than their US counterparts. They establish that dividends are much less sensitive to past dividends. The results supports the substitution view that the institutional structures of developing countries make dividends a less viable mechanism for signaling and for reducing agency costs than their US counterparts operating in more highly developed arms length capital markets.

Manos (2002) observe that private sector firms in India set their target payout ratios so as to minimize the sum of agency costs and the costs associated with raising external finance. Manos' findings are consistent with the agency rational for dividend as articulated by Easterbrook (1984) and Rozeff (1982).

Ownership and control structure significantly affects the dividend policy in Finnish firms Maury and Pajuste (2002). They establish that dividend payout ratio is negatively related to the control stake of the controlling shareholder. In addition, the presence of large shareholder also affects the payout ratio negatively. Different owner types in control influence dividend policy differently. They find that when the Chief Executive Officer (CEO) is also a large shareholder firms pay lower dividends. They conclude that a firm's control structure affects the dividend payout policy and that dominant shareholder in control may collude in generating private benefits of control that are not shared with minority shareholders as indicated by lower dividend payout levels.

By comparing dividends paid across varying ownership structures in terms of concentration, type, and domicile of ownership, Bena, Hanousek (2005) quantify their effects and reveal that they are substantial. They find that the target payout ratio for firms with majority ownership is low but the presence of a significant minority shareholder increases the target payout ratio and hence precludes a majority owner from rent extraction. They conclude that large shareholders extract rent from firms and expropriate minority shareholders in a weak corporate governance environment of an emerging economy.

2.10 Ownership Structure

In his empirical study on dividend policy and ownership structure in China, Wei (2003) establishes that ownership structure approach is highly relevant to an understanding of corporate dividends policy. Wei (2003) observers that China being a socialist country, the interest of the state is supreme. The essential goal of the stock exchange is to fund restructuring of the state-owned enterprises, and unavoidably, most of listed companies in China are state owned. Institutional investors such as pension funds, insurance

companies are not active and the positive correlation between state ownership and cash dividends rates demonstrates the effect of the largest shareholder (the state) Wei (2003).

2.10.1 Concentrated ownership and large shareholders

According to Shleifer and Vishny (1997) large shareholding or majority ownership are relatively uncommon in the US and UK. At the same time, large commercial banks often control major companies in Germany and Japan. In the most of Europe (e.g. Italy, Finland, and Sweden), as well as Latin America, Southeast Asia and Africa, firms are typically controlled by families. Faccio and Lang (2000) find that the level of the government shareholding is well below family shareholding in the stock-market economies, bank driven economies, and crony capitalists' economies.

Most of listed companies in China are state owned Tian (2000). The government has more than 10% of direct and indirect voting rights in 43.8% of the firms. With more than 50% voting rights, the government absolutely controls 31.4% of listed companies.

Certain institutional investors are restricted in the types of common stock they can buy or in the portfolio percentages they can hold in these types. The prescribed list of eligible securities is determined in part by the duration over which dividends have been paid. If a company does not pay a dividend or has not paid dividend over a sufficiently long period of time, certain institutional investors are not permitted to invest in the stock. A number of trusts have a prohibition against the liquidation of principal. In the case of common stocks, the beneficiary is entitled to the dividend income, but not to the proceeds from the sale of stock. As a result of this stipulation, the trustee who manages the investment may feel constrained to pay particular attention to the dividend yield and seek stocks paying reasonable dividends (Van Horne, 1997).

Large shareholders, like other emerging markets characterize Indian corporate firms' ownership structure (Kumar Jayesh 2003). Majority control

gives the largest shareholders incentive and control over key decisions, like dividend payout.

Oltetia (2002) establishes that listed companies in Kenya have a mixed ownership structure with institutional and foreign investors as the two predominant groups of shareholders. On average each of the two holds about 41% and 34% respectively of total outstanding shares. Other investors are the state and individual investors with shareholding of 8% and 17% respectively. He observes that many listed companies do not issue employee and management shares, and in those that do offer employees and management shares, they account less than 1% of total outstanding shares.

Thuku (2002) establishes that 67% of commercial banks in Kenya are wholly locally owned, 23% partially foreign and partially locally owned and 10% are entirely foreign owned. 42% are wholly institutionally, 52% partially institutionally and partially individually owned while none are entirely individually owned, and 4% are entirely government owned, and above all, 85% of the banks in Kenya are not listed on the NSE.

2.10.2 Public shareholders and their preference

In China, most individual investors are small shareholders and their interests are not protected (Wei 2002). The weak legal system cannot efficiently protect voting power rights of minority shareholders. Individual shareholders are in a disadvantageous position because of the lack of proxy voting procedures. Even for those individuals in the top 10 shareholders, their holdings are extremely small, normally less than 0.5%. Considering the large stakes held by the state, 0.5% shareholding by a single individual is negligible. Almost no individual shareholders are on the board of directors or on the supervisory committee (Xu and Wang, 1999). They do not have enough voting rights to effect important corporate matters, such as dividends payment policy. It is conceivable that the dispersed individual ownership in China may give rise to the classic free rider problem. Small investors have neither the incentive nor the capability to collect information and monitor the management. The average shareholding period in China is about 1 to 2 months, whereas it is 18

months in the US (Xu and Wang, 1999) implying that Chinese individual shareholders are seeking short term trading profits rather than cash dividend income or long term growth. Therefore, it seems that with the high proportion of public shareholders, managers must consider to cater for their preference for stock dividend in order to raise additional capital.

2.10.3 Foreign investors

Glen, Karmokolias, Miller and Shah (1995) noted that investors in developed countries often hold stock of developing countries for its long run growth. Such that if developing countries' stock is held for growth rather than for income, then this suggests a negative relation between foreign ownership and the payout ratio. Furthermore, foreign holding increases foreign analysts' interest in the firm, resulting in more monitoring and hence with less need for the dividend induced monitoring device. This also implies a negative relation between the percentage of foreign holdings and the payout ratio.

2.11 Previous Studies on Dividend Policy in Kenya

The studies on dividend policies discussed above most of them were undertaken in developed markets like US and Europe with limited attention on emerging markets like Kenya. However, there are few studies that have been conducted on the Kenyan markets.

Karanja (1987) studied "The dividend practices of publicly quoted companies in Kenya". He observes that there are three important factors that determine dividend policy in Kenya, i.e. cash and liquidity, current and prospective profitability and company's level of distributable resources. He also notes that foreign controlled companies have more liberal dividend policies than locally controlled firms.

Abdul (1993) in her study on "empirical study to identify parameters which are important in the determination of dividends by publicly quoted companies", based on data of 36 companies, observes that there are a number of factors that influence payment of dividends. These parameters include: profits, current net income, liquidity, working capital, investments and cash flows.

She concludes that liquidity seems to be a very important variable among the companies listed at the NSE, which is consistent with Karanja's findings.

Njoroge (2001) conducted "A study on dividend policy, growth in assets, return on assets and return on equity at the Nairobi Stock Exchange". He concludes that both return on equity and returns on assets are positively related to dividend payout ratio and that growth in assets is significant in determining the level of dividend to be paid.

Wairimu (2002), in her research "The empirical relationship between dividends and investments decisions of firms quoted at the Nairobi Stock Exchange", establishes that there is a positive correlation between investment and dividend decisions.

Tiriongo (2004) studied "Dividend policy practices in companies listed at the Nairobi Stock Exchange". In examining 49 listed companies at the NSE over a period of ten years he observes that the dividend policies of Kenyan firms depend on growth and prospect, leverage, profitability, liquidity and stability of earnings, which validates Lintner/Brittain's model. Expected growth and leverage are found to be the two most important.

Bitok (2004) in his study "The effect of dividend policy on the value of the firms quoted at the Nairobi Stock Exchange", observes that in making dividend decisions managers consider return on assets, and that they do not consider return on equity and growth in assets in making dividend decisions. This indicates that there is relevancy of dividends to the value of common stock.

Ochola (2005) conducted a study on "Shareholders' pressure on firms' decision to pay dividends at Nairobi Stock Exchange". In assessing the possible impact of shareholders pressure on the decision of management to pay dividend for companies quoted at the NSE, using ordinary share prices, dividends payments, dividend per share, over the period 1996 – 2003, he concluded that speculators identify non-payers that are likely to pay dividends,

and by paying a high price, put pressure on shares of such firms by way of additional demand and consequently on corporate managers to pay dividends.

2.12 Studies on Agency Relationships in Kenya

In Kenya a number of studies have been carried out in the area of corporate governance. Mucuvi (2002) notes that there is generally a high level of awareness about corporate governance issues among motor vehicle industry players in Kenya, and that a number of firms in this industry have taken deliberate steps to implement these policies amid tough challenges from the external factors. However, she establishes that corporate governance seems more entrenched in those companies that are foreign owned and this is because their head-offices are based in countries where corporate governance seems a key issue in management of organizations.

Kang'ethe (1999) using share price volatility as a measure of risk perception of investors, establishes that companies which the government has shareholding are perceived to be more risky by investors. The study findings support the need for privatization of such enterprises, as a way of enhancing investors' perception.

Murithi (2004) establishes that state ownership is negatively related to return on assets. The state ownership is seen to lead to inefficiency and low profitability. He also notes that financial institutions have no significant relationship with return on assets, and this may support the hypothesis that financial institutions have the skills and resources to monitor managers. On the other hand, Kitonga (2001) observes that Kenyan shareholders have not been forceful in promoting good corporate governance standards. He notes that Kenyan capital markets is dominated by investors who are keen on short term gains as opposed to long term gains, and thus not committed to ensuring removal of non-performing managers, but would rather sell their shares in such poor performing companies. Secondly, he attributes investors' non-commitment to the fact that they are too diffuse to pool their weight and influence the management teams.

Thuku (2002) concludes that institution ownership and banks financial performance in Kenya are independent, and only the extent of foreign ownership has a significant relationship to financial performance of the banks. Oltetia (2002) finds out that on the one hand, there are no relationship between state, institution and individual ownership and performance. On the other hand, there is a significant effect of foreign ownership on performance of listed companies. The performances of firms dominated by foreign investors seem to be higher than those dominated by any other group of investors.

2.13 Capital Markets Regulatory Framework in Kenya

The regulatory framework of the capital markets in Kenya has evolved since the creation of the Capital Markets Authority in 1989. This is in response to an increasing role of the capital markets in supporting of national economic growth, needs and aspirations. The regulatory framework has undergone reviews as part of the measures aimed at enhancing the regulatory powers of CMA as well as strengthening the self-regulatory mechanism of the stock exchange (CMA various annual reports).

The Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations, 2002 eligibility listing requirements, provides as an obligation for issuers to have a clear future dividend policy. This means that all the listed companies at the NSE pay great attention to dividend policy, as they are required at the time of Initial Public Offering (IPO) to disclose their dividend policy.

The Capital Markets (Takeovers and Mergers) Regulations 2002, defines effective control as a situation where a person or a company which controls not less than twenty-five (25%) percent of the votes attached to the ordinary shares and has an intention of acquiring more shares of the offeree.

According to the Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations 2002, for a company to be listed at the NSE on the Main Investment Market Segment (MIMS), it has to have at least 25% of its shares held by not less than 1,000 shareholders, which excludes employees

of the issuer, and to list on Alternative Investment Market Segment (AIMS), a company has to have at least 20% of its shares held by not less than 100 shareholders, excluding employees of the issuer or family members of the controlling shareholders. However, actively tradable shares of the majority of the companies listed at NSE average about 20% of the total capitalization with balance of 80% representing block holdings shares not available for trading, and this undermines the market liquidity (CMA annual report, 1996/97). A majority of the recent issues at NSE have been dominated by government enterprises as part of the government's efforts to promote widespread ownership of shares through privatization programs (CMA various annual reports).

The Capital Markets (foreign investors) Regulations issued in 2002 states that every issuer or listed company must reserve at least twenty- five (25%) per centum of its ordinary shares for investment by local investors. Institutional local investor refer to a body corporate including financial institutions, collective investment schemes, fund manager, dealer or other body corporate whose ordinary business includes the management or investment of funds whether as principal or on behalf of clients (foreign investors regulations, 2002). This regulation also defines an individual local investor as a natural person who is a citizen of Kenya. The foreign investor has been defined as any person who is not a local investor.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

This study investigates whether ownership structure has significant effects on the dividend payout policy of the quoted companies in Kenya. The study examines the effect of state ownership, institutional ownership, individual investors' and foreign investors on dividend payout ratios for 8 years (1998 – 2005).

3.1 Population

The population consists of all the companies listed on the NSE over the period 1998 – 2005. A census of all companies that have continually been quoted during the study period were analyzed. There are presently 51 equity-quoted companies at the NSE.

The period 1998 – 2005 coincides with the globalization era, when a number of reforms were instituted in the capital markets including strengthening institutional participation through promotion of fund managers, introduction of collective investment schemes (vehicles), further opening up of the capital markets to foreign participation (2002), and the ongoing regional integration. The period 1998 – 2005 is long enough, which will enable us; identify any differences or changes over the 8-years period. The NSE market was reorganized into three distinct market segments in 2001, namely: Main Investment Market Segment (MIMS), Alternative Investment Market Segment (AIMS) and Fixed Income Securities Market Segment (FISMS).

This study focuses on companies listed on MIMS and AIMS that have issued and listed ordinary shares and emphasis is on cash dividends, as the non-cash dividend payments shall be ignored.

3.2 Data Collection

Data used in this study is secondary data; specifically the companies consolidated financial statements for the periods 1998 – 2005 on dividend

payout ratios. The annual reports of listed companies were obtained from the CMA and NSE libraries. The data on ownership composition/structure were obtained from CMA and NSE, as listed companies are required by the CMA rules and regulations to send on monthly basis summary of shareholding structure in terms of foreign investors, east African investors, local institutional investors and individual investors.

3.3 Hypothesis

The research focuses on testing the following hypothesis

H_0: There is no significant relationship between ownership structure and the dividend payout policy of listed companies in Kenya

H_A: There is a significant relationship between ownership structure and the dividend payout policy of listed companies in Kenya.

3.4 Data Analysis

The data used comprised ownership structure classified into various shareholders and their corresponding dividend payout ratios.

3.4.1 Ownership structure

Dividend payments are declared by the board of directors and eventually approved by shareholders during the annual general meeting. The shareholders approval is a formality as besides approving final dividend payments they also ratify interim payments. Since shareholders elect directors in an annual general meeting, it means substantial shareholders or those with effective control are likely to influence the election of directors and consequently decisions to be made by the board of directors, which includes payment of dividends.

It is possible that in order to exert pressure on whether to pay or not to pay dividend strong representation on the board may matter. Therefore firms shall be grouped according to their shareholding structure i.e. firms with foreign investors' effective control, firms with local individual investors' effective

control, firms with state effective control and firms with local institutional investors' effective control. According to the Capital Markets (Takeovers & Mergers) Regulations, 2002, "effective control" means the exercise of not less than 25% of the votes attached to the ordinary shares of a particular company. In this case therefore, any category of investors, i.e. State, institutions, individuals or foreigners holding at least 25% of the shareholding of a company will be categorized as an investor with "effective control". State ownership refers to equity ownership by the Permanent Secretary to Treasury on behalf of the government.

3.4.2 Dividend payout ratios

The dividend payout ratios (DPOR) were used in assessing the level of dividend payments adopted by various firms. In his study on the dividend practices of publicly quoted companies in Kenya, Karanja (1987) found out that of the 53 listed firms at NSE, 54% of them recorded DPOR of between 20% and 59%, whereas about 28% of the firms had DPOR of over 59%. However, given the timeframe, there have been changes in economic fundamentals including operating in a liberalized regime; in this particular study we determined based on actual data the DPOR averages for each category of investors for purposes of assigning a value to high, average and low.

Average values were calculated on all observations over the period. For each firm, average ownership was determined for each category of investors. Average DPOR was determined for each firm and the high, average and low DPOR were placed in the respective ownership categories before the Chi-square was computed. The Statistical Package for Social Scientists (SPSS) and Microsoft Excel were used in data analysis.

3.4.3 Data presentation

The average DPOR for each major category of shareholders was calculated for all the years as shown below.

Dividend payout ratio of firms with **state ownership**

	1998	1999	2000	2001	2002	2003	2004	2005	Mean
High									
Average									
Low									

The data was captured in a 2x3 contingency table for each category of investors as shown below.

	Dividend payout ratio			
State Ownership	High	Average	Low	**TOTAL**
High				
Low				
TOTAL				

The Chi-Squared (χ^2) test of independence was used to test the hypothesis if the level of significance is set at 5% and with (2-1) (3-1) degrees of freedom, $\chi^2_{0.05,2}$ =5.991

The decision rule was therefore; Reject the null hypothesis if χ^2 is greater than 5.991 and do not reject the null hypothesis if χ^2 is less than 5.991.

The same procedure was repeated for local institutional, local individuals and foreign ownership.

CHAPTER FOUR

4.0 DATA ANALYSIS AND INTERPRETATION OF RESULTS

4.1 Data Analysis

This paper examines the relationship between ownership structure and dividend payout policy of listed companies in Kenya. The data consists of all listed companies at NSE over the period 1998 – 2005 with exception of a few outliers. In this case outliers include those companies that have not been listed during the entire 8-year period like Mumias Sugar Company is excluded. Also excluded are those firms whose data for all the eight years both dividend payout ratios and ownership structure could not be obtained, and this leaves a target of 29 firms.

For each firm, average ownership was determined for each category of investors. Average DPOR was determined for each firm and the high, average and low DPOR were placed in the respective ownership categories in regard to high and low DPOR before the Chi- Square was computed.

A list of all the firms studied data analysis and variables used are given in the appendices. A summary of the average percentage ownership of listed companies is given in appendix 1 (table a – e), while the DPOR average summary for each firm is given in appendix 2. The results of the Chi – Square test is presented in appendix 3 (table 1 – 4).

The presentation of findings on ownership structure and DPOR and their relationship is given below.

4.2 Ownership Structure

The listed companies in Kenya have a mixed ownership structure with the institutional investors dominating. The institutional investors' ownership is about 40%, followed by foreign investors 35%, while individual investors own 17% and the state 8%. During the period 1998 – 2005, there was a marked

increase in institutional ownership as foreign investors were declining, while the state and individual ownership remained almost static. "The equity secondary market also benefited from higher capital inflows as institutional investors returned to this market segment for better yields, particularly from retirement benefits sector", (CMA annual report, 2003).

The state ownership is expected to remain static given that its shares are not available for daily trading at NSE. Similarly, in an incident where it does not exercise its rights, when a company in which it has shares decide to offer a rights issue, its proportion is expected to decline.

Given the low ownership by individual investors in Kenya, their participation in the corporate decisions may not be noticed. The low participation of local individual investors in the stock market in Kenya is partly attributed to low income levels and savings, lack of awareness on opportunities and general operations of the capital markets (CMA various annual reports). Given the low incomes and lack of awareness, it is unlikely that they can have a representation on the board of the listed companies a situation similar to China, where almost no individual shareholders are on the board of directors (Xu and Wang, 1999). Therefore, they do not have enough voting rights to effect important corporate matters, such as dividends payment policy. However, institutional ownership has an implication on agency costs, Shleifer and Vishny (1986), Brikley, Lease, and Smith (1988) argue that institutional ownership help to resolve problems by monitoring management, and this will benefit all shareholders including individual shareholders.

4.3 Dividend Payout Ratios (DPOR)

The average DPOR for listed companies at NSE for the period 1998 – 2005 is 0.56 (56%). This means that of the total earnings attributable to shareholders during the period, 56% was distributed to shareholders as cash dividends.

The firms dominated by the state paid out on average 19% of their earnings to shareholders, firms with effective local institutional control paid out on average

49% of their earnings, while firms' with local individual effective control paid out 39% of their earnings as cash dividends to shareholders.

The firms with foreign investors' effective control outperformed the market average by paying an average of 66% of their total earnings to shareholders as cash dividends. This finding is consistent with Karanja's (1987) where he established that foreign controlled firms in Kenya have a liberal dividend policy than locally controlled firms.

Out of the 29 studied firms at NSE, 15 firms or 51% paid over 50% of their earnings as cash dividends during the period. Whereas 4 firms paid over 100% of their earnings, meaning cash dividend paid from the earnings of the respective periods was supplemented with retained earnings. There were 4 firms that paid cash dividends despite the fact that they had negative EPS. The negative DPOR arose as a result of either a firm paying interim dividend based on good half – year – results and not paying final dividend because of a loss or paying dividend out of the retained earnings due to a loss during the year to ensure continued dividend payment.

This finding is consistent with an observation in an empirical test by DeAngelo, DeAnagelo, and Skinner (1992) who established that 51 percent of companies experiencing losses reduce their dividend in the initial loss year. They claim that a loss is a necessary condition for dividend restrictions, but not a sufficient reason. The findings support the view of Lintner's (1956) target – payout notion. Rather omit dividends in the face of financial distress; the majority of companies reduce them, indicating managerial reluctance to do away with a dividend.

4.4 Ownership structure and the firms' DPOR

Table 1 – 4 shows the Chi – Square values for state effective control, local institutional effective control, local individual effective control and foreign investors effective control. Each of the findings is discussed as follows.

Table 1 – State Effective Control

Dividend Payout Ratio				
State Ownership	High	Average	Low	Total
High	1.1	0.53	0.0	1.63
Low	0.24	-0.07	-0.82	-0.65
Total	1.34	0.46	-0.82	0.98

Total chi-square now = 1.08547879802008

>>Calculating probability (P)...

>>Looking up critical values for chi at df = 2:

>> Sig levels: 0.20 0.10 0.05 0.025 0.01 0.001

>> Crit vals: 3.22 4.61 5.99 7.38 9.21 13.82

Degrees of freedom: 2

Chi-square = 1.08547879802008

For significance at the .05 level, chi-square should be greater than or equal to 5.99.

In this case the distribution is not significant.

We therefore fail to reject the null hypothesis and conclude that there is no relationship between state ownership and dividend payout policy of listed companies in Kenya. This finding contradicts the position in china, where there is a positive correlation between state ownership and cash dividends Wei (2003). This demonstrates that state ownership in Kenya is not keen on dividend policy, but rather promotion of wider ownership through divestiture via the capital markets.

Table 2 – Local Institutional Effective Control

Dividend Payout Ratio				
Institutional Ownership	High	Average	Low	Total
High	8.0	2.63	0.9	11.53
Low	0	-0.35	-1.72	-2.07
Total	8	2.28	-0.82	9.46

>>Total chi-square now = 15.0246646664018

>>Calculating probability (P) ...
>>Looking up critical values for chi at df = 2:
>> Sig levels: 0.20 0.10 0.05 0.025 0.01 0.001
>> Crit vals: 3.22 4.61 5.99 7.38 9.21 13.82
>>Sig. 0.20: chi is greater than or equal to 3.22
>>Sig. 0.10: chi is greater than or equal to 4.61
>>Sig. 0.05: chi is greater than or equal to 5.99
>>Sig. 0.025: chi is greater than or equal to 7.38
>>Sig. 0.01: chi is greater than or equal to 9.21
>>Sig. 0.001: chi is greater than or equal to 13.82
Degrees of freedom: 2

Chi-square = 15.0246646664018

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The distribution is significant since the chi – square of institutional effective control is 15.02. We therefore reject the null hypothesis and conclude that there is a relationship between institutional ownership (local institutional effective ownership) and dividend payout policy.

This finding is consistent with Eckbo and Verma (1994) observation that large institutional stakes are associated with higher payout. High payout in companies with considerable ownership is consistent with the idea that dividend are used as a way of compensating block holders for their monitoring activities (Shleifer and Vishny, 1986). This indicates that the institutional ownership in listed firms in Kenya is keen on dividend policy payments, and their strong representation on the board of directors gives them the opportunity to influence the dividend policy.

Table 3 – Local Individuals Effective Control

Dividend Payout Ratio				
Individual Ownership	**High**	**Average**	**Low**	**Total**
High	2.96	1.02	0.61	4.59
Low	0.08	0.01	0.0	0.09
Total	3.04	1.03	0.61	4.68

>>Total chi-square now = 0.0250030558978829

>>Calculating probability (P)...

>>Looking up critical values for chi at df = 2:

>> Sig levels: 0.20 0.10 0.05 0.025 0.01 0.001

>> Crit vals: 3.22 4.61 5.99 7.38 9.21 13.82

Degrees of freedom: 2

Chi-square = 0.0250030558978829

For significance at the .05 level, chi-square should be greater than or equal to 5.99.

The distribution is not significant.

We therefore fail to reject the null hypothesis and conclude that there is no relationship between individual ownership and dividend policy of listed companies in Kenya. This finding is consistent with practice in China, where individual ownership is insignificant, as they do not have enough voting rights to effect important corporate matters, such as dividends payment policy (Xu and Wang, 1999). It is likely that the low and dispersed individual ownership undermines their role in corporate decisions including dividend payment policy, as they lack representation on the board of directors.

Table 4 – Foreign Effective Control

Dividend Payout Ratio				
Foreign Ownership	High	Average	Low	Total
High	8.0	2.1	0.95	11.05
Low	0	-0.1	-0.82	-0.92
Total	8	2	0.13	10.13

>>Total chi-square now = -51.4170011539218

>>Calculating probability (P) ...
>>Looking up critical values for chi at df = 2:
>> Sig levels: 0.20 0.10 0.05 0.025 0.01 0.001
>> Crit vals: 3.22 4.61 5.99 7.38 9.21 13.82

Degrees of freedom: 2

Chi-square = -51.4170011539218

For significance at the .05 level, chi-square should be greater than or equal to 5.99.

In this case the distribution is not significant.

We therefore fail to reject the null hypothesis and conclude that there is no relationship between foreign ownership and dividend payout policy of listed companies in Kenya.

This finding is consistent with observation by Glen, Karmokolias, Miller and Shah (1995) that investors in developed countries often hold stock of developing countries for its long run growth. Such that if developing countries' stock is held for growth rather than for income, then this suggests a negative relation between foreign ownership and the payout ratio. Furthermore, foreign holding increases foreign analysts' interest in the firm, resulting in more monitoring and hence with less need for the dividend induced monitoring device. This also implies a negative relation between the percentage of foreign holdings and the payout ratio. It follows that foreign investors are not keen on dividend policy payment since they are long-term investors, and they can realize their returns through capital gains.

CHAPTER FIVE

5.0 SUMMARY OF FINDINGS AND CONCLUSION, RECOMMENDATIONS, LIMITATIONS OF THE STUDY AND SUGGESTIONS FOR FURTHER RESEARCH

5.1 Summary of Findings and Conclusion

The study findings on the ownership structure, DPOR and relationship between ownership structure and DPOR of listed firms in Kenya is discussed below.

5.1.1 Summary of Findings

The objective of the study was to determine whether there is a relationship between ownership structure and dividend payout ratio of quoted firms in Kenya, and find evidence to support or reject null hypothesis.

The ownership structure of firms listed in Kenya is mixed with institutional investors dominating, owning an average of 40%, foreign ownership 35%, individuals 17% with state owning 8%.

The average DPOR of listed firms in Kenya is 56% with firms dominated by foreigners having a DPOR of 66%, local institutions 49%, individual controlled firms 39% while state owned firms 19%. The results are consistent with Karanja's (1987) findings that foreign controlled firms have a liberal dividend policy than local dominated firms. Out of the studied firms, 51% had DPOR of over 50%, 13.8% firms had over 100% (i.e. distributed all earnings plus retained earnings), while 13.8% firms paid dividend despite the fact that they had negative EPS. This finding is consistent with an observation by DeAngelo, DeAnagelo, and Skinner (1992) and Lintner's (1956) target – payout notion, where management is reluctant to do away with a dividend.

The results presented points to lack of relationship between; state and dividend payout ratio, individual ownership and dividend payout ratio and foreign investors' ownership and dividend payout ratio. The results reflect existence of relationship between institutional ownership and dividend payout ratio.

The results of the study seem to suggest that the influence of the state shareholder, individuals, and foreigners to firm's DPOR is insignificant if not completely irrelevant. However, it was found that local institutional investors have a significant impact on the DPOR. This finding is consistent with Eckbo and Verma (1994) observation that large institutional stakes are associated with higher payout, similarly Shleifer and Vishny (1986) observe that dividends are used as a way of compensating block holders for their monitoring activities.

5.1.2 Conclusion

It is likely that the significance of the DPOR variable might have something to do with the representation on the board of directors, as one of their corporate decisions is dividend payment policy. Therefore, local individual investors' low and sparse ownership limits their role in dividend payment policy decisions as they are not represented on the board of directors.

The state ownership in Kenya is not keen on dividend income but rather to promote wider ownership through undertaking divestiture through the capital markets, unlike in China where there is a positive relationship between state and cash dividend payments, as the state dominates ownership Wei (2003).

Kenya being a developing economy, thus absence of significant relationship between foreign ownership and DPOR, this may be attributed to the fact that investors in developed countries often hold stock of developing countries for its long run growth.

The significant relationship between institutional ownership and DPOR in Kenya may be explained by their ownership dominance and by extension

strong representation on the board of directors, thus influencing corporate decisions including payments of higher dividends. Further, the limited investment opportunities including availability of few tradable shares at NSE may influence institutional investors to target dividends payment as a return, as opposed to capital gains.

5.2 Recommendations

The Capital Markets regulatory framework recognizes various categories of investors, namely; foreign investors, local institutional investors, local individual investors, Individual and institutional east African investors. However, there is no policy framework to encourage their participation given their unique role in supporting the development of the capital markets. The role of small savers in economic development cannot be overemphasized. Therefore, appropriate policy measures to encourage both institutions and individual investors to participate in the capital markets are important. In view of the important role played by the institutional investors in promoting international best corporate governance practices, it is necessary that appropriate policy and fiscal measures are put in place to strengthen their participation.

The level of awareness still undermines the development of the capital markets in Kenya, and it is necessary for CMA and the market stakeholders to work jointly in addressing this challenge.

There is need to put in place appropriate policy measures to encourage increased supply of tradable shares including IPOs.

Given that management is reluctant to omit cash dividend payments even when firms are making losses, it demonstrates importance attached to dividend by investors. Therefore there is a need to review the fiscal incentive on withholding tax on dividend income as part of the measures to encourage further mobilization of resources through the capital markets.

5.3 Limitations of the Study

This study suffers from certain limitations that need to be understood for purposes of making appropriate interpretation of the study results. First, this study uses a sub-sample of Kenyan enterprises listed at the NSE. These companies represent a fraction of the enterprises in Kenya, and therefore this study suffers from a sample selection bias.

Secondly, the study has lumped together the various categories of shareholders such that individual foreign investors are grouped together with institutional investors, whereas ownership held by the state enterprises has been classified under institutional investors.

Thirdly, the ownership was based on annual/calendar year status, ignoring the fact that shares were traded throughout the year bringing about variations.

Fourthly, firms listed at NSE have different year ends with some December others September. This study assumed December or September as a particular year for purposes of computing ownership and DPOR.

5.4 Suggestions for further Research

Further research can be undertaken by incorporating other forms of distributions besides cash like bonus issue.

Further research can be undertaken on firms not quoted at NSE to see if the same results hold.

Further research can be undertaken in light of emerging reforms in the pension sector to see whether they have any impact on cash dividend payments by firms listed at NSE.

Further research can be undertaken on the same study in future, to confirm if the observations would have changed.

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APPENDICES

Appendix 1

Table a – Summary of Ownership structure 1998 – 2005

Year	State	Institutions	Individuals	Foreigners	TOTAL
1998	242,051,627	1,028,676,296	457,794,724	1,064,386,599	2,792,909,246
1999	254,517,679	1,148,995,301	394,061,809	1,044,636,044	2,842,210,833
2000	254,517,679	1,103,199,064	498,460,693	1,111,809,974	2,967,987,410
2001	267,607,675	1,190,052,157	484,760,077	1,101,554,626	3,043,974,539
2002	267,607,679	1,152,157,937	555,490,468	1,141,755,940	3,117,012,024
2003	267,607,679	1,213,520,279	565,460,189	1,108,855,477	3,155,443,624
2004	267,607,679	1,378,839,638	597,369,552	1,125,329,026	3,369,145,895
2005	267,607,679	1,912,029,937	687,816,459	1,228,485,413	4,095,939,488
Average	**261,140,672**	**1,265,933,826**	**530,151,746**	**1,115,851,637**	**3,173,077,882**

Table b – Summary of Ownership structure 1998 – 2005 (%)

Year	State	Institutions	Individuals	Foreigners
1998	8.67%	36.83%	16.39%	38.11%
1999	8.95%	40.43%	13.86%	36.75%
2000	8.58%	37.17%	16.79%	37.46%
2001	8.79%	39.10%	15.93%	36.19%
2002	8.59%	36.96%	17.82%	36.63%
2003	8.48%	38.46%	17.92%	35.14%
2004	7.94%	40.93%	17.73%	33.40%
2005	6.53%	46.68%	16.79%	29.99%
Average	8.23%	39.90%	16.71%	35.17%

Table c – Average Ownership structure (1998 – 2005)

Company	State	Institutions	Individuals	Foreigners	TOTAL
Bamburi Ceme	0	76,696,076	21,056,285	265,331,914	363,084,275
BAT (K)	0	26,740,390	10,651,230	56,358,380	93,750,000
B.O.C (K)	0	4,100,987	2,501,138	12,923,321	19,525,446
Carbacid Inves	0	6,354,526	3,713,996	550,311	10,618,833
Crown Berger	0	9,656,632	4,420,108	8,032,509	22,109,250
E.A. Cables	0	12,804,940	3,605,185	3,839,875	20,250,000
E.A. Portlands	22,800,000	34,603,607	6,147,302	26,449,091	90,000,000
E.A. Breweries	0	110,866,456	29,256,410	31,965,373	172,088,239
Sameer E.Afric	0	192,640,429	33,379,843	52,322,122	278,342,395
Kenya Oil Co.	0	27,400,486	3,437,164	481,183	31,318,833
Kenya Power	31,295,012	29,502,746	10,835,220	4,363,425	75,996,402
Unilever	0	4,035,531	1,652,224	43,187,245	48,875,000
Kakuzi	0	9,127,722	3,815,851	6,656,426	19,599,999
Rea Vipingo	0	15,735,024	11,975,690	32,289,287	60,000,000
Barclays Bank	0	29,780,846	29,945,098	124,610,248	184,336,193
CFC Bank	0	98,442,812	18,556,360	500,828	117,500,000
Diamond Trust	0	17,573,673	19,688,959	52,795,962	90,058,594
Housing Finan	8,422,850	32,434,642	28,356,298	34,286,210	103,500,000
Kenya Comm.	47,451,250	45,385,149	48,104,172	6,759,430	147,700,000
National Bank	45,000,000	117,721,776	37,271,164	7,059	200,000,000
NIC	0	54,755,123	24,172,692	1,426,370	80,354,185
Standard Chart	0	31,319,512	28,482,019	173,019,397	232,820,929
ICDCI	0	26,732,046	19,178,645	111,660	46,022,350
CMC Holdings	0	20,009,556	9,438,236	904,899	30,352,691
Kenya Airways	106,171,561	125,632,236	84,332,675	145,525,886	461,662,358
Marshalls E.A.	0	9,960,978	3,898,442	533,685	14,393,106
Nation Media	0	11,651,476	11,916,264	21,571,943	45,139,683
TPS Serena	0	32,026,115	6,573,959	79,050	38,679,125
Uchumi	0	52,242,335	13,789,117	8,968,549	75,000,000
	261,140,673	1,295,078,829	537,280,389	1,117,593,139	3,173,077,882

Table d – Average Ownership structure (%)

Company	State	Institutions	Individuals	Foreigners
Bamburi Ceme	0.00%	21.12%	5.80%	73.08%
BAT (K)	0.00%	28.52%	11.36%	60.12%
B.O.C (K)	0.00%	21.00%	12.81%	66.19%
Carbacid Inves	0.00%	59.84%	34.98%	5.18%
Crown Berger	0.00%	43.68%	19.99%	36.33%
E.A. Cables	0.00%	63.23%	17.80%	18.96%
E.A. Portlands	25.33%	38.45%	6.83%	29.39%
E.A. Breweries	0.00%	64.42%	17.00%	18.57%
Sameer E.Afric	0.00%	69.21%	11.99%	18.80%
Kenya Oil Co.	0.00%	87.49%	10.97%	1.54%
Kenya Power	41.18%	38.82%	14.26%	5.74%
Unilever	0.00%	8.26%	3.38%	88.36%
Kakuzi	0.00%	46.57%	19.47%	33.96%
Rea Vipingo	0.00%	26.23%	19.96%	53.82%
Barclays Bank	0.00%	16.16%	16.24%	67.60%
CFC Bank	0.00%	83.78%	15.79%	0.43%
Diamond Trust	0.00%	19.51%	21.86%	58.62%
Housing Finan	8.14%	31.34%	27.40%	33.13%
Kenya Comm.	32.13%	30.73%	32.57%	4.58%
National Bank	22.50%	58.86%	18.64%	0.00%
NIC	0.00%	68.14%	30.08%	1.78%
Standard Chart	0.00%	13.45%	12.23%	74.31%
ICDCI	0.00%	58.08%	41.67%	0.24%
CMC Holdings	0.00%	65.92%	31.10%	2.98%
Kenya Airways	23.00%	27.21%	18.27%	31.52%
Marshalls E.A.	0.00%	69.21%	27.09%	3.71%
Nation Media	0.00%	25.81%	26.40%	47.79%
TPS Serena	0.00%	82.80%	17.00%	0.20%
Uchumi	0.00%	69.66%	18.39%	11.96%
Average	8.23%	39.90%	16.71%	35.17%

Table e – Summary of Ownership Control

Company	State effective Control
E.A Portland	25.3%
Kenya Power	41.2%
Kenya Commercial Bank	32.1%
Average	**32.9%**

Company	Individuals effective Control
Carbacid Investment	35.0%
Housing Finance	27.4%
Kenya Comm.	32.6%
NIC	30.1%
ICDCI	41.7%
CMC Holdings	31.1%
Marshalls E.A	27.1%
Nation Media	26.4%
Average	**31.4%**

Company	Institutions effective Control
BAT (K)	28.5%
Carbacid Investment	59.8%
Crown Berger	43.7%
E.A. Cables	63.2%
E.A. Portland	38.4%
E.A. Breweries	64.4%
Sameer E.Africa	69.2%
Kenya Oil Co.	87.5%
Kenya Power	38.8%
Kakuzi	46.6%
Rea Vipingo	26.2%
CFC Bank	83.8%
Housing Finance	31.3%
Kenya Comm. Bank	30.7%
National Bank	58.9%
NIC	68.1%
ICDCI	58.1%
CMC Holdings	65.9%
Kenya Airways	27.2%
Marshalls E.A.	69.2%
Nation Media Group	25.8%
TPS Serena	82.8%
Uchumi Supermarket	69.7%
Average	**53.82%**

Company	Foreigners effective Control
Bamburi Cement	73.1%
BAT (K)	60.1%
B.O.C (K)	66.2%
Crown Berger	36.3%
E.A. Portland	29.4%
Unilever	88.4%
Kakuzi	34.0%
Rea Vipingo	53.8%
Barclays Bank	67.6%
Diamond Trust	58.6%
Housing Finance	33.1%
Standard Char	74.3%
Kenya Airway	31.5%
Nation Media	47.8%
Average	**53.9%**

Appendix 2

Average DPOR (ratio)

	DPOR								
Company	1998	1999	2000	2001	2002	2003	2004	2005	Average
Bamburi Ce	0.48	0.58	0.94	0.56	1.04	0.95	1.29	0.96	0.85
BAT (K)	0.50	0.64	1.36	1.31	1.09	1.08	1.36	0.90	1.03
B.O.C (K)	0.45	0.62	0.93	0.92	0.81	0.56	0.55	0.52	0.67
Carbacid In	0.26	0.44	0.28	0.69	0.47	2.96	0.50	0.50	0.76
Crown Berg	0.95	0.94	0.56	0.46	0.58	0.55	0.00	0.52	0.57
E.A. Cables	0.64	4.17	0.73	1.39	-1.72	2.17	0.57	0.48	1.05
EA Portland	0.24	0.00	0.00	0.12	1.10	0.70	-0.82	0.37	0.21
E.A. Brewer	2.64	0.61	0.58	0.61	0.54	1.09	0.51	0.62	0.90
Sameer E.A	0.68	0.71	0.95	0.83	1.21	0.89	1.01	0.68	0.87
Kenya Oil	0.25	0.26	0.40	0.20	0.22	0.23	0.24	0.25	0.26
Kenya Pow	0.29	0.48	-0.05	0.00	0.00	0.00	0.00	0.09	0.10
Unilever	0.85	0.91	0.65	0.44	0.98	4.72	1.08	1.42	1.38
Kakuzi	0.54	1.07	-0.28	0.00	0.00	0.00	0.23	0.00	0.20
Rea Vipingo	0.00	0.00	0.00	0.00	0.61	8.00	0.37	0.39	1.17
Barclays	0.57	0.69	1.27	0.88	1.20	0.82	0.78	0.78	0.87
CFC Bank	0.28	0.42	0.42	0.57	0.46	0.34	0.28	0.27	0.38
Diamond Tr	0.31	0.61	0.29	0.78	0.63	0.46	0.42	0.00	0.44
Housing Fin	0.61	0.82	0.84	0.00	0.00	0.00	0.00	0.00	0.28
Kenya Com	0.60	0.00	0.00	0.00	0.00	0.33	0.62	0.59	0.27
National Ba	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
NIC	0.21	0.49	0.48	0.51	0.72	0.77	0.76	0.75	0.59
Standard C	0.58	0.70	1.25	0.91	0.93	0.83	0.96	0.86	0.88
ICDCI	0.57	0.35	0.51	0.60	0.45	0.76	0.68	0.56	0.56
CMC Hold	0.08	0.11	0.15	0.21	0.16	0.14	0.19	0.21	0.16
Kenya Air	0.35	0.48	0.21	0.43	0.32	0.58	0.24	0.19	0.35
Marshall EA	0.38	0.00	0.00	0.00	0.00	0.00	0.00	0.32	0.09
Nation Medi	0.18	0.25	0.31	0.22	0.33	0.44	0.50	0.67	0.36
TPS Serena	0.68	0.49	0.51	0.44	0.40	1.69	0.33	0.25	0.60
Uchumi	0.64	0.75	0.56	1.07	0.60	0.00	0.00	0.00	0.45

Appendix 3

Chi – Square Test

State effective control DPOR

	1998	1999	2000	2001	2002	2003	2004	2005	Mean
High	0.6	0.48	0	0.12	1.1	0.7	0.62	0.59	0.53
Average	0.38	0.16	-0.02	0.04	0.37	0.34	-0.07	0.35	0.19
Low	0.24	0	-0.05	0	0	0	-0.82	0.09	-0.07

Average of State effective control DPOR = 0.19

		Dividend payout ratio		
State Ownership	High	Average	Low	**TOTAL**
High	1.1	0.53	0	
Low	0.24	-0.07	-0.82	
TOTAL				

Table 1 – State Effective Control

Dividend Payout Ratio				
State ownership	**High**	**Average**	**Low**	**Total**
High	1.1	0.53	0.0	1.63
Low	0.24	-0.07	-0.82	-0.65
Total	1.34	0.46	-0.82	0.98

Total chi-square now = 1.08547879802008

>>Calculating probability (P)...
>>Looking up critical values for chi at df = 2:
>> Sig levels:0.20 0.10 0.05 0.025 0.01 0.001
>> Crit vals: 3.22 4.61 5.99 7.38 9.21 13.82

Degrees of freedom: 2
Chi-square = 1.08547879802008
For significance at the .05 level, chi-square should be greater than or equal to 5.99.
The distribution is not significant.
p is less than or equal to 1.

Institutions effective control DPOR

	1998	1999	2000	2001	2002	2003	2004	2005	Mean
High	2.64	4.17	1.36	1.39	1.21	8.0	1.36	0.9	2.63
Average	0.50	0.59	0.37	0.42	0.33	0.99	0.33	0.37	0.49
Low	0	0	-0.28	0	-1.72	0	-0.82	0	-0.35

Average Institutions effective control DPOR = 0.49

		Dividend payout ratio		
Institutions Ownership	High	Average	Low	**TOTAL**
High	8.0	2.63	0.9	
Low	0	-0.35	-1.72	
TOTAL				

Table 2 – Local Institutional Effective Control

Dividend Payout Ratio				
Institutional ownership	**High**	**Average**	**Low**	**Total**
High	8.0	2.63	0.9	11.53
Low	0	-0.35	-1.72	-2.07
Total	8	2.28	-0.82	9.46

>>Total chi-square now = 15.0246646664018

>>Calculating probability (P) ...

>>Looking up critical values for chi at df = 2:

>> Sig levels:0.20 0.10 0.05 0.025 0.01 0.001

>> Crit vals: 3.22 4.61 5.99 7.38 9.21 13.82

>>Sig. 0.20: chi is greater than or equal to 3.22

>>Sig. 0.10: chi is greater than or equal to 4.61

>>Sig. 0.05: chi is greater than or equal to 5.99

>>Sig. 0.025: chi is greater than or equal to 7.38

>>Sig. 0.01: chi is greater than or equal to 9.21

>>Sig. 0.001: chi is greater than or equal to 13.82

Degrees of freedom: 2

Chi-square = 15.0246646664018

p is less than or equal to 0.001.

The distribution is significant.

Individual effective control DPOR

	1998	1999	2000	2001	2002	2003	2004	2005	Mean
High	0.61	0.82	0.84	0.69	0.72	2.96	0.76	0.75	1.02
Average	0.36	0.31	0.32	0.28	0.27	0.68	0.41	0.45	0.39
Low	0.08	0	0	0	0	0	0	0	0.01

Average of Individual effective control DPOR = 0.39

Individual effective control DPOR

		Dividend payout ratio		
Individual Ownership	High	Average	Low	**TOTAL**
High	2.96	1.02	0.61	
Low	0.08	0.01	0	
TOTAL				

Table 3 – Local Individuals Effective Control

Dividend Payout Ratio				
Individual ownership	**High**	**Average**	**Low**	**Total**
High	2.96	1.02	0.61	4.59
Low	0.08	0.01	0.0	0.09
Total	3.04	1.03	0.61	4.68

>>Total chi-square now = 0.0250030558978829

>>Calculating probability (P)...
>>Looking up critical values for chi at df = 2:
>> Sig levels:0.20 0.10 0.05 0.025 0.01 0.001
>> Crit vals: 3.22 4.61 5.99 7.38 9.21 13.82

Degrees of freedom: 2
Chi-square = 0.0250030558978829
For significance at the .05 level, chi-square should be greater than or equal to 5.99.
The distribution is not significant.
p is less than or equal to 1.

Foreign control effective control DPOR

	1998	1999	2000	2001	2002	2003	2004	2005	Mean
High	0.95	1.07	1.36	1.31	1.2	8.0	1.36	1.42	2.1
Average	0.47	0.59	0.6	0.5	0.69	1.41	0.5	0.54	0.66
Low	0	0	-0.28	0	0	0	-0.82	0	-0.14

Foreigners effective control DPOR = 0.66

		Dividend payout ratio		
Foreign Ownership	High	Average	Low	**TOTAL**
High	8.0	2.1	0.95	
Low	0	-0.14	-0.82	
TOTAL				

Table 4 – Foreign Effective Control

Dividend Payout Ratio				
Foreign ownership	**High**	**Average**	**Low**	**Total**
High	8.0	2.1	0.95	11.05
Low	0	-0.1	-0.82	-0.92
Total	8	2	0.13	10.13

>>Total chi-square now = -51.4170011539218

>>Calculating probability (P) ...

>>Looking up critical values for chi at df = 2:

>> Sig levels:0.20 0.10 0.05 0.025 0.01 0.001

>> Crit vals: 3.22 4.61 5.99 7.38 9.21 13.82

Degrees of freedom: 2

Chi-square = -51.4170011539218

For significance at the .05 level, chi-square should be greater than or equal to 5.99.

The distribution is not significant.

p is less than or equal to 1.

Appendix 4

OWNERSHIP STRUCTURE					
			1998		
Company	State	Institutions	Individuals	Foreigners	TOTAL
Bamburi Cem	0	79,561,076	17,337,343	266,060,856	362,959,275
BAT (K)	0	17,046,072	12,852,700	45,101,228	75,000,000
B.O.C (K)	0	3,894,706	2,706,492	12,924,245	19,525,443
Carbacid Inve	0	7,985,733	987,001	466,229	9,438,963
Crown Berger	0	8,025,900	604,100	12,940,000	21,570,000
E.A. Cables	0	14,978,739	5,262,800	8,461	20,250,000
E.A. Portlands	22,800,000	24,896,559	15,917,332	26,386,109	90,000,000
E.A. Brewerie	0	68,386,259	14,858,574	10,357,419	93,602,252
Sameer E.Afri	0	153,380,050	62,648,189	62,314,153	278,342,392
Kenya Oil Co.	0	5,624,475	1,495,114	80,211	7,199,800
Kenya Power	20,387,216	15,969,692	10,858,329	7,686,763	54,902,000
Unilever	0	4,074,328	1,664,162	43,136,510	48,875,000
Kakuzi	0	8,287,524	4,081,915	7,230,560	19,599,999
Rea Vipingo	0	23,129,047	10,391,311	26,479,642	60,000,000
Barclays Bank	0	28,670,183	19,923,347	105,711,470	154,305,000
CFC Bank	0	70,716,265	28,884,108	399,627	100,000,000
Diamond Trus	0	15,705,272	16,346,304	47,448,424	79,500,000
Housing Finan	8,422,850	26,231,212	22,345,106	35,000,832	92,000,000
Kenya Comm.	39,270,000	28,810,488	27,680,665	16,438,847	112,200,000
National Bank	45,000,000	134,843,823	20,149,077	7,100	200,000,000
NIC	0	43,284,591	20,369,220	2,277,830	65,931,641
Standard Cha	0	24,992,872	17,367,928	122,468,176	164,828,976
ICDCI	0	16,346,612	11,837,202	74,615	28,258,429
CMC Holdings	0	13,837,994	9,616,233	825,632	24,279,859
Kenya Airway	106,171,561	106,651,204	68,186,836	180,605,882	461,615,483
Marshalls E.A.	0	8,460,426	5,409,125	523,554	14,393,105
Nation Media	0	15,301,563	4,067,504	16,283,562	35,652,629
TPS Serena	0	34,450,347	4,199,126	29,527	38,679,000
Uchumi	0	25,133,284	19,747,581	15,119,135	60,000,000
	242,051,627	1,028,676,296	457,794,724	1,064,386,599	2,792,909,246

Appendix 4

			1999		
Company	State	Institutions	Individuals	Foreigners	TOTAL
Bamburi Ceme	0	69,112,425	27,786,825	266,060,025	362,959,275
BAT (K)	0	17,044,037	12,857,782	45,098,181	75,000,000
B.O.C (K)	0	4,092,745	2,508,456	12,924,245	19,525,446
Carbacid Inves	0	6,792,055	2,180,679	466,229	9,438,963
Crown Berger	0	7,111,927	703,378	13,754,695	21,570,000
E.A. Cables	0	3,899,391	1,036,547	15,314,062	20,250,000
E.A. Portlands	22,800,000	24,896,353	15,917,432	26,386,215	90,000,000
E.A. Breweries	0	63,386,547	18,939,941	11,275,764	93,602,252
Sameer E.Afric	0	161,847,530	55,306,535	61,188,328	278,342,393
Kenya Oil Co.	0	5,627,113	1,495,815	76,872	7,199,800
Kenya Power	32,853,268	25,823,023	8,826,998	10,797,928	78,301,217
Unilever	0	4,476,022	1,262,468	43,136,510	48,875,000
Kakuzi	0	8,879,500	3,923,540	6,796,959	19,599,999
Rea Vipingo	0	29,336,711	4,383,647	26,279,642	60,000,000
Barclays Bank	0	39,846,695	8,746,835	105,711,470	154,305,000
CFC Bank	0	91,731,944	7,868,429	399,627	100,000,000
Diamond Trust	0	23,664,361	8,314,505	47,521,134	79,500,000
Housing Finan	8,422,850	38,323,408	10,187,235	35,066,507	92,000,000
Kenya Comm.	39,270,000	46,169,818	13,022,256	13,737,926	112,200,000
National Bank	45,000,000	127,110,318	27,881,582	8,100	200,000,000
NIC	0	72,246,501	7,145,259	3,022,769	82,414,529
Standard Chart	0	30,076,168	12,284,632	122,468,176	164,828,976
ICDCI	0	22,930,189	14,660,284	87,433	37,677,906
CMC Holdings	0	14,099,636	9,450,784	729,440	24,279,860
Kenya Airways	106,171,561	121,755,321	88,167,568	145,521,033	461,615,483
Marshalls E.A.	0	7,067,900	6,790,728	534,476	14,393,104
Nation Media	0	12,977,276	6,391,792	16,283,562	35,652,630
TPS Serena	0	35,977,458	2,666,428	35,114	38,679,000
Uchumi	0	32,692,929	13,353,449	13,953,622	60,000,000
	254,517,679	1,148,995,301	394,061,809	1,044,636,044	2,842,210,833

Appendix 4

Company	State	Institutions	2000 Individuals	Foreigners	TOTAL
Bamburi Ceme	0	49,483,522	47,149,275	266,326,478	362,959,275
BAT (K)	0	27,450,900	12,419,700	60,129,400	100,000,000
B.O.C (K)	0	3,698,303	2,905,810	12,921,333	19,525,446
Carbacid Inves	0	7,903,302	976,813	558,848	9,438,963
Crown Berger	0	5,452,769	4,728,861	11,388,370	21,570,000
E.A. Cables	0	2,956,486	1,970,991	15,322,523	20,250,000
E.A. Portlands	22,800,000	34,355,710	5,986,129	26,858,161	90,000,000
E.A. Breweries	0	69,945,747	12,380,741	11,275,764	93,602,252
Sameer E.Afric	0	156,844,583	67,219,107	54,278,703	278,342,393
Kenya Oil Co.	0	6,242,064	885,009	72,727	7,199,800
Kenya Power	32,853,268	30,131,295	15,149,199	994,238	79,128,000
Unilever	0	3,533,797	1,798,292	43,542,911	48,875,000
Kakuzi	0	8,898,462	3,813,626	6,887,911	19,599,999
Rea Vipingo	0	14,405,356	8,035,715	37,558,929	60,000,000
Barclays Bank	0	46,411,914	32,576,357	105,711,470	184,699,741
CFC Bank	0	78,547,236	21,005,661	447,103	100,000,000
Diamond Trust	0	22,035,397	10,369,594	47,095,007	79,499,998
Housing Finan	8,422,850	35,892,079	12,610,730	35,074,341	92,000,000
Kenya Comm.	39,270,000	23,905,423	39,827,973	9,196,604	112,200,000
National Bank	45,000,000	134,836,449	20,147,976	15,575	200,000,000
NIC	0	54,006,056	25,379,710	3,028,785	82,414,551
Standard Chart	0	43,208,730	20,333,520	183,701,214	247,243,464
ICDCI	0	30,000,272	7,584,634	92,999	37,677,905
CMC Holdings	0	16,267,132	7,308,421	704,006	24,279,559
Kenya Airways	106,171,561	127,841,585	84,951,270	143,026,067	461,990,483
Marshalls E.A.	0	7,345,072	6,513,555	534,478	14,393,105
Nation Media	0	3,084,210	3,174,140	16,159,126	22,417,476
TPS Serena	0	30,725,802	7,919,084	35,114	38,680,000
Uchumi	0	27,789,411	13,338,800	18,871,789	60,000,000
	254,517,679	1,103,199,064	498,460,693	1,111,809,974	2,967,987,410

Appendix 4

Company	State	Institutions	2001 Individuals	Foreigners	TOTAL
Bamburi Ceme	0	82,281,870	15,631,499	266,045,906	363,959,275
BAT (K)	0	26,289,201	13,623,499	60,087,300	100,000,000
B.O.C (K)	0	4,940,641	1,664,628	12,920,177	19,525,446
Carbacid Inves	0	10,204,532	601,683	520,540	11,326,755
Crown Berger	0	6,740,255	1,075,050	13,754,695	21,570,000
E.A. Cables	0	12,144,923	8,096,617	8,461	20,250,001
E.A. Portlands	22,800,000	36,418,701	4,395,190	26,386,109	90,000,000
E.A. Breweries	0	87,036,112	2,817,792	19,176,348	109,030,252
Sameer E.Afric	0	215,672,356	14,310,331	48,359,706	278,342,393
Kenya Oil Co.	0	6,415,005	675,839	108,956	7,199,800
Kenya Power	32,853,268	36,177,658	4,027,499	6,069,575	79,128,000
Unilever	0	4,495,980	1,242,708	43,136,312	48,875,000
Kakuzi	0	9,221,114	4,021,413	6,357,472	19,599,999
Rea Vipingo	0	24,225,501	10,382,357	25,392,142	60,000,000
Barclays Bank	0	31,699,654	26,612,578	126,853,768	185,166,000
CFC Bank	0	49,489,263	50,040,335	470,402	100,000,000
Diamond Trust	0	16,958,010	15,238,519	47,303,471	79,500,000
Housing Finan	8,422,850	28,576,098	19,922,511	35,078,541	92,000,000
Kenya Comm.	52,360,000	45,974,316	42,434,786	8,830,898	149,600,000
National Bank	45,000,000	102,011,272	52,978,628	10,100	200,000,000
NIC	0	51,603,157	30,303,422	507,972	82,414,551
Standard Chart	0	48,383,269	15,156,331	183,703,864	247,243,464
ICDCI	0	25,038,551	19,457,646	127,627	44,623,824
CMC Holdings	0	17,504,094	6,086,960	688,506	24,279,560
Kenya Airways	106,171,561	127,294,418	87,617,056	140,532,448	461,615,483
Marshalls E.A.	0	8,176,591	5,682,037	534,478	14,393,106
Nation Media	0	8,753,089	7,821,642	19,077,899	35,652,630
TPS Serena	0	29,948,842	8,682,429	47,729	38,679,000
Uchumi	0	36,377,684	14,159,092	9,463,224	60,000,000
	267,607,679	1,190,052,157	484,760,077	1,101,554,626	3,043,974,539

Appendix 4

			2002		
Company	State	Institutions	Individuals	Foreigners	TOTAL
Bamburi Ceme	0	79,127,620	17,757,142	266,074,513	362,959,275
BAT (K)	0	30,005,745	9,906,947	60,087,308	100,000,000
B.O.C (K)	0	2,518,210	4,086,059	12,921,177	19,525,446
Carbacid Inves	0	4,250,594	6,555,621	520,540	11,326,755
Crown Berger	0	12,176,319	6,453,681	2,940,000	21,570,000
E.A. Cables	0	17,121,878	3,119,661	8,461	20,250,000
E.A. Portlands	22,800,000	38,974,314	1,836,827	26,388,859	90,000,000
E.A. Breweries	0	26,584,033	16,307,444	66,138,775	109,030,252
Sameer E.Afric	0	218,168,734	12,009,703	48,163,956	278,342,393
Kenya Oil Co.	0	8,803,193	1,167,463	108,956	10,079,612
Kenya Power	32,853,268	31,259,401	12,427,207	2,588,124	79,128,000
Unilever	0	3,997,686	1,741,002	43,136,312	48,875,000
Kakuzi	0	10,414,997	2,848,952	6,336,050	19,599,999
Rea Vipingo	0	8,311,378	13,950,371	37,738,251	60,000,000
Barclays Bank	0	16,648,576	41,163,705	127,353,719	185,166,000
CFC Bank	0	110,155,767	9,271,741	572,492	120,000,000
Diamond Trust	0	12,459,611	19,918,585	47,121,804	79,500,000
Housing Finan	8,422,850	31,382,073	40,116,536	35,078,541	115,000,000
Kenya Comm.	52,360,000	32,793,357	59,852,612	4,594,031	149,600,000
National Bank	45,000,000	107,881,012	47,115,088	3,900	200,000,000
NIC	0	54,534,898	27,258,888	620,765	82,414,551
Standard Chart	0	21,210,675	42,253,021	183,779,768	247,243,464
ICDCI	0	29,441,420	25,365,333	148,430	54,955,183
CMC Holdings	0	17,033,555	6,569,899	676,106	24,279,560
Kenya Airways	106,171,561	129,407,452	88,076,350	137,960,120	461,615,483
Marshalls E.A.	0	12,338,719	1,519,909	534,478	14,393,106
Nation Media	0	11,431,784	17,922,366	24,124,795	53,478,945
TPS Serena	0	30,898,674	7,729,710	50,616	38,679,000
Uchumi	0	42,826,262	11,188,645	5,985,093	60,000,000
	267,607,679	1,152,157,937	555,490,468	1,141,755,940	3,117,012,024

Appendix 4

Company	State	Institutions	2003 Individuals	Foreigners	TOTAL
Bamburi Ceme	0	82,585,649	14,241,613	266,132,013	362,959,275
BAT (K)	0	31,757,413	8,155,279	60,087,308	100,000,000
B.O.C (K)	0	4,214,652	2,389,617	12,921,177	19,525,446
Carbacid Inves	0	4,154,976	6,564,642	607,137	11,326,755
Crown Berger	0	11,872,549	6,756,951	2,940,500	21,570,000
E.A. Cables	0	17,089,438	3,152,101	8,461	20,250,000
E.A. Portlands	22,800,000	39,082,211	1,727,430	26,390,359	90,000,000
E.A. Breweries	0	72,135,524	19,109,184	17,785,544	109,030,252
Sameer E.Afric	0	216,002,639	14,172,798	48,166,956	278,342,393
Kenya Oil Co.	0	8,856,921	1,110,949	111,742	10,079,612
Kenya Power	32,853,268	28,330,104	15,410,806	2,533,822	79,128,000
Unilever	0	3,730,257	2,008,286	43,136,457	48,875,000
Kakuzi	0	9,495,003	3,552,273	6,552,723	19,599,999
Rea Vipingo	0	9,400,981	15,700,054	34,898,965	60,000,000
Barclays Bank	0	25,133,498	39,008,355	139,540,747	203,682,600
CFC Bank	0	110,155,767	9,271,741	572,492	120,000,000
Diamond Trust	0	13,923,828	26,341,967	59,109,205	99,375,000
Housing Finan	8,422,850	31,383,490	40,157,619	35,036,041	115,000,000
Kenya Comm.	52,360,000	35,630,920	61,393,129	215,951	149,600,000
National Bank	45,000,000	107,677,945	47,318,155	3,900	200,000,000
NIC	0	52,497,467	29,295,929	621,155	82,414,551
Standard Chart	0	24,764,372	38,771,203	183,707,889	247,243,464
ICDCI	0	28,415,428	26,444,654	135,101	54,995,183
CMC Holdings	0	16,844,365	6,765,487	669,708	24,279,560
Kenya Airways	106,171,561	128,693,595	88,710,960	138,039,367	461,615,483
Marshalls E.A.	0	12,317,992	1,550,716	524,398	14,393,106
Nation Media	0	12,320,384	16,966,511	24,192,050	53,478,945
TPS Serena	0	31,330,114	7,296,984	51,902	38,679,000
Uchumi	0	43,722,797	12,114,796	4,162,407	60,000,000
	267,607,679	1,213,520,279	565,460,189	1,108,855,477	3,155,443,624

Appendix 4

			2004		
Company	State	Institutions	Individuals	Foreigners	TOTAL
Bamburi Ceme	0	87,226,670	12,777,665	262,954,940	362,959,275
BAT (K)	0	31,979,881	7,934,475	60,085,644	100,000,000
B.O.C (K)	0	4,692,876	1,909,393	12,923,177	19,525,446
Carbacid Inves	0	4,330,796	6,388,822	607,137	11,326,755
Crown Berger	0	13,155,291	7,335,559	3,236,150	23,727,000
E.A. Cables	0	17,096,525	3,145,014	8,461	20,250,000
E.A. Portlands	22,800,000	38,878,731	1,930,910	26,390,359	90,000,000
E.A. Breweries	0	71,791,412	21,073,988	16,964,372	109,829,772
Sameer E.Afric	0	215,980,920	14,294,424	48,067,056	278,342,400
Kenya Oil Co.	0	88,694,878	10,986,582	1,114,660	100,796,120
Kenya Power	32,853,268	29,618,156	14,443,408	2,213,168	79,128,000
Unilever	0	3,761,118	1,977,390	43,136,492	48,875,000
Kakuzi	0	9,315,186	3,802,021	6,482,792	19,599,999
Rea Vipingo	0	8,782,745	16,318,290	34,898,965	60,000,000
Barclays Bank	0	24,046,969	36,536,455	143,099,176	203,682,600
CFC Bank	0	132,788,977	10,652,423	558,600	144,000,000
Diamond Trust	0	15,344,652	27,671,720	56,358,628	99,375,000
Housing Finan	8,422,850	30,738,248	40,804,761	35,034,141	115,000,000
Kenya Comm.	52,360,000	70,733,884	73,290,529	215,587	196,600,000
National Bank	45,000,000	106,232,337	48,763,763	3,900	200,000,000
NIC	0	53,944,845	27,829,009	640,697	82,414,551
Standard Chart	0	28,474,613	41,359,321	202,133,876	271,967,810
ICDCI	0	28,119,388	26,759,566	116,229	54,995,183
CMC Holdings	0	34,303,056	12,956,782	1,324,612	48,584,450
Kenya Airways	106,171,561	131,977,001	85,629,568	137,837,353	461,615,483
Marshalls E.A.	0	12,087,015	1,781,693	524,398	14,393,106
Nation Media	0	12,561,387	16,722,508	24,195,050	53,478,945
TPS Serena	0	31,259,652	7,357,461	61,887	38,679,000
Uchumi	0	40,922,429	14,936,052	4,141,519	60,000,000
	267,607,679	1,378,839,638	597,369,552	1,125,329,026	3,369,145,895

Appendix 4

			2005		
Company	State	Institutions	Individuals	Foreigners	TOTAL
Bamburi Ceme	0	84,189,775	15,768,916	263,000,584	362,959,275
BAT (K)	0	32,349,874	7,459,458	60,190,668	100,000,000
B.O.C (K)	0	4,755,759	1,838,652	12,931,035	19,525,446
Carbacid Inves	0	5,214,217	5,456,709	655,829	11,326,755
Crown Berger	0	12,718,048	7,703,287	3,305,665	23,727,000
E.A. Cables	0	17,152,138	3,057,751	40,111	20,250,000
E.A. Portlands	22,800,000	39,326,277	1,467,169	26,406,554	90,000,000
E.A. Breweries	0	427,666,016	128,563,617	102,748,997	658,978,630
Sameer E.Afric	0	203,226,623	27,077,657	48,038,120	278,342,400
Kenya Oil Co.	0	88,940,238	9,680,542	2,175,340	100,796,120
Kenya Power	32,853,268	38,712,636	5,538,311	2,023,785	79,128,000
Unilever	0	4,215,058	1,523,485	43,136,457	48,875,000
Kakuzi	0	8,509,991	4,483,069	6,606,939	19,599,999
Rea Vipingo	0	8,288,472	16,643,772	35,067,756	60,000,000
Barclays Bank	0	25,789,278	34,993,155	142,900,167	203,682,600
CFC Bank	0	143,957,280	11,456,440	586,280	156,000,000
Diamond Trust	0	20,498,256	33,310,475	70,410,019	124,218,750
Housing Finan	8,422,850	36,950,527	40,705,884	28,920,739	115,000,000
Kenya Comm.	52,360,000	79,062,983	67,331,424	845,593	199,600,000
National Bank	45,000,000	121,181,054	33,815,046	3,900	200,000,000
NIC	0	55,923,465	25,800,096	690,990	82,414,551
Standard Chart	0	29,445,398	40,330,199	202,192,213	271,967,810
ICDCI	0	33,564,504	21,319,837	110,842	54,995,183
CMC Holdings	0	30,186,619	16,751,321	1,621,180	48,559,120
Kenya Airways	106,171,561	131,437,315	83,321,792	140,684,815	461,615,483
Marshalls E.A.	0	11,894,109	1,939,775	559,222	14,393,106
Nation Media	0	16,782,111	22,263,649	32,259,500	71,305,260
TPS Serena	0	31,618,034	6,740,453	320,513	38,679,000
Uchumi	0	168,473,882	11,474,518	51,600	180,000,000
	267,607,679	1,912,029,937	687,816,459	1,228,485,413	4,095,939,488

Appendix 5

TABLE OF YEARLY RESULTS OF DPS, EPS & DPOR

		1998			1999			2000	
Company	**DPS**	**EPS**	**DPOR**	**DPS**	**EPS**	**DPOR**	**DPS**	**EPS**	**DPOR**
Bamburi Ceme	0.75	1.57	0.48	1.00	1.74	0.57	0.75	0.80	0.94
BAT (K)	7.50	14.98	0.50	10.50	16.50	0.64	7.90	5.83	1.36
B.O.C (K)	3.49	7.81	0.45	3.55	5.75	0.62	3.55	3.83	0.93
Carbacid Invest.	2.20	8.57	0.26	5.00	11.50	0.43	2.75	9.77	0.28
Crown Berger	1.00	1.05	0.95	2.00	2.13	0.94	0.50	0.90	0.56
E.A. Cables	2.00	3.14	0.64	4.50	1.08	4.17	1.10	1.50	0.73
E.A. Portlands	1.00	4.17	0.24	0.00	-9.76	0.00	0.00	-4.66	0.00
E.A. Brewerie	6.00	2.27	2.64	7.00	11.49	0.61	7.50	12.91	0.58
Sameer E.Afr	1.50	2.20	0.68	1.00	1.40	0.71	1.00	1.05	0.95
Kenya Oil Co	6.00	23.67	0.25	7.50	29.32	0.26	6.00	15.15	0.40
Kenya Power	8.00	27.76	0.29	8.00	16.52	0.48	2.00	-40.33	-0.05
Unilever	4.00	4.70	0.85	4.00	4.40	0.91	6.00	9.19	0.65
Kakuzi	2.75	5.11	0.54	2.00	1.87	1.07	0.40	-1.44	-0.28
Rea Vipingo	0.00	0.73	0.00	0.00	-0.11	0.00	0.00	-0.57	0.00
Barclays Ban	11.00	19.40	0.57	10.00	14.60	0.68	14.00	11.00	1.27
CFC Bank	0.67	2.39	0.28	0.67	1.58	0.42	0.67	1.61	0.42
Diamond Tru	0.80	2.60	0.31	0.80	1.31	0.61	0.60	2.06	0.29
Housing Fina	1.50	2.48	0.60	0.50	0.61	0.82	0.38	0.45	0.84
Kenya Comm.	6.00	10.04	0.60	0.00	-13.86	0.00	0.00	-4.14	0.00
National Bank	0.00	-14.00	0.00	0.00	-12.14	0.00	0.00	-11.03	0.00
NIC	1.00	4.71	0.21	1.80	3.65	0.49	1.80	3.79	0.47
Standard Ch	5.00	8.67	0.58	7.40	10.54	0.70	11.00	8.80	1.25
ICDCI	3.00	5.30	0.57	2.50	7.17	0.35	3.00	5.92	0.51
CMC Holding	0.50	6.39	0.08	0.75	6.61	0.11	0.75	5.05	0.15
Kenya Airway	1.00	2.85	0.35	1.25	2.61	0.48	1.25	6.03	0.21
Marshalls E.A.	1.00	2.61	0.38	0.00	-14.67	0.00	0.00	-7.24	0.00
Nation Media	1.65	9.16	0.18	1.75	7.01	0.25	1.75	5.70	0.31
TPS Serena	1.00	1.48	0.68	1.00	2.05	0.49	1.10	2.15	0.51
Uchumi	3.35	5.21	0.64	3.05	4.07	0.75	3.00	5.33	0.56

Appendix 5

		2001			2002			2003	
Company	**DPS**	**EPS**	**DPOR**	**DPS**	**EPS**	**DPOR**	**DPS**	**EPS**	**DPOR**
Bamburi Cement	1.12	2.01	0.56	3.50	3.38	1.04	2.80	2.94	0.95
BAT (K)	7.90	6.04	1.31	9.00	8.23	1.09	12.25	11.40	1.07
B.O.C (K)	3.55	3.84	0.92	4.35	5.40	0.81	4.35	7.82	0.56
Carbacid Invest.	2.75	3.97	0.69	2.30	4.93	0.47	23.10	7.81	2.96
Crown Berger	0.50	1.08	0.46	1.50	2.57	0.58	1.50	2.74	0.55
E.A. Cables	1.10	0.79	1.39	0.50	-0.29	-1.72	1.00	0.46	2.17
E.A. Portlands	1.00	8.18	0.12	1.50	1.37	1.09	1.75	2.51	0.70
E.A. Breweries	9.00	14.88	0.60	11.50	21.27	0.54	15.00	13.76	1.09
Sameer E.Africa	1.00	1.20	0.83	1.00	0.83	1.20	0.50	0.56	0.89
Kenya Oil Co.	7.50	37.12	0.20	9.50	43.80	0.22	10.50	46.50	0.23
Kenya Power	0.00	-36.36	0.00	0.00	-23.75	0.00	0.00	-38.56	0.00
Unilever	2.00	4.57	0.44	2.50	2.54	0.98	6.00	1.27	4.72
Kakuzi	0.00	-2.31	0.00	0.00	0.39	0.00	0.00	-0.60	0.00
Rea Vipingo	0.00	0.07	0.00	0.25	0.41	0.61	0.40	0.05	8.00
Barclays Bank	14.00	16.00	0.88	12.00	10.00	1.20	14.00	17.00	0.82
CFC Bank	0.67	1.18	0.57	0.67	1.45	0.46	0.84	2.49	0.34
Diamond Trust	0.40	0.51	0.78	0.60	0.95	0.63	0.70	1.53	0.46
Housing Finance	0.00	-1.62	0.00	0.00	0.49	0.00	0.00	0.45	0.00
Kenya Comm. B	0.00	1.31	0.00	0.00	-20.06	0.00	1.00	3.06	0.33
National Bank	0.00	1.49	0.00	0.00	0.99	0.00	0.00	2.02	0.00
NIC	1.60	3.12	0.51	2.00	2.78	0.72	2.25	2.94	0.77
Standard Chart	8.25	9.07	0.91	8.25	8.92	0.92	8.50	10.25	0.83
ICDCI	2.00	3.35	0.60	2.00	4.48	0.45	2.20	2.89	0.76
CMC Holdings	0.75	3.58	0.21	1.00	6.29	0.16	1.00	7.29	0.14
Kenya Airways	1.25	2.94	0.43	0.60	1.88	0.32	0.50	0.87	0.57
Marshalls E.A.	0.00	-21.45	0.00	0.00	2.03	0.00	0.00	1.53	0.00
Nation Media	1.60	7.20	0.22	2.50	7.55	0.33	5.00	11.27	0.44
TPS Serena	1.10	2.50	0.44	1.10	2.74	0.40	1.10	0.65	1.69
Uchumi	1.60	1.49	1.07	0.50	0.83	0.60	0.00	-3.28	0.00

Appendix 5

Company		2004			2005	
	DPS	EPS	DPOR	DPS	EPS	DPOR
Bamburi Cement	6.12	4.73	1.29	5.30	5.52	0.96
BAT (K)	16.50	12.10	1.36	12.50	13.82	0.90
B.O.C (K)	4.50	8.20	0.55	5.50	10.62	0.52
Carbacid Invest.	4.00	7.99	0.50	5.00	10.10	0.50
Crown Berger	0.00	0.78	0.00	1.00	1.92	0.52
E.A. Cables	3.50	6.11	0.57	5.00	10.40	0.48
E.A. Portlands	1.75	-2.13	-0.82	2.50	6.75	0.37
E.A. Breweries	18.00	35.21	0.51	4.50	7.24	0.62
Sameer E.Africa	1.00	0.99	1.01	0.50	0.74	0.68
Kenya Oil Co.	2.00	8.32	0.24	2.25	8.92	0.25
Kenya Power	0.00	-1.62	0.00	0.00	1.15	0.00
Unilever	8.00	7.39	1.08	2.00	1.41	1.42
Kakuzi	1.00	4.27	0.23	0.00	-3.76	0.00
Rea Vipingo	2.50	20.29	0.12	0.00	-10.17	0.00
Barclays Bank	14.00	18.00	0.78	14.00	18.00	0.78
CFC Bank	0.84	2.97	0.28	0.84	3.17	0.26
Diamond Trust	0.70	1.65	0.42	0.00	2.43	0.00
Housing Finance	0.00	0.52	0.00	0.00	0.51	0.00
Kenya Comm. B	2.00	3.21	0.62	4.00	6.73	0.59
National Bank	0.00	1.91	0.00	0.00	1.29	0.00
NIC	2.40	3.17	0.76	2.50	3.34	0.75
Standard Chart	6.50	6.74	0.96	7.50	8.72	0.86
ICDCI	3.00	4.39	0.68	3.00	5.37	0.56
CMC Holdings	1.00	5.42	0.18	1.50	7.00	0.21
Kenya Airways	0.75	3.14	0.24	1.25	6.54	0.19
Marshalls E.A.	0.00	1.55	0.00	1.00	3.11	0.32
Nation Media	6.00	11.99	0.50	6.65	10.00	0.67
TPS Serena	1.10	3.37	0.33	1.25	4.96	0.25
Uchumi	0.00	-11.65	0.00	0.00	-6.82	0.00