STABILITY OF DIVIDENDS PAYOUT AND SHARE RETURNS OF COMPANIES LISTED AT THE NAIROBI SECURITIES EXCHANGE

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DECLARATION

I declare that this is my original work and has not been presented for a degree in any other university.

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ABSTRACT

The consequence of dividends payout on share return is an enticing topic in finance. It is in this spectrum that the study examines the possible effects of stability of dividends payout on the share return for organizations quoted at the Nairobi Securities Exchange. The projected relation is that a stability of dividend payout policy shall improve share returns and vice versa. The study uses a descriptive research design from a population survey of the 67 quoted organizations at the NSE in the four years between 2013 and 2016. The study used secondary data available for 20 share index firms at the NSE and on the financial reports available on their websites. The regression model used in the study has the share return as a function of dividends payout ratio. The study found a strong positive link between dividend payout ratio and the share return. The study concludes that there's a positive relationship between share return and dividends payout ratio for firms listed at the NSE but the relationship is insignificant.

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LIST OF ABBREVIATION

NSE -Nairobi Securities Exchange

CMA - Capital Markets Authority

EPS -Earning per Share

DPS -Dividends per Share

DPR -Dividend Payout Ratio

SPSS -Statistical Package for Social Sciences

ANOVA - Analysis of Variance

IPO - Initial Public Offer

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

The decision to invest in dividend paying stock is to exploit the benefits of such stocks which ensure consistent earnings and take advantage of reinvestment opportunities presented by such company. The investor is then left with a number of choices to make including: buying back shares, reinvesting income into the organization so as to increase its value and deciding to pick up dividend pay which is weighed on the share emanating from it. To pick on high dividend stock one will have to assess a number of things including: the industry trends, operating leverage, financial leverage, size of the company and current valuation multiple.

Payout ratio is a critical ingredient in the world of finance since it extends hints at the workability of chosen dividend policy of an organization and the possibility of capital gain.

This ratio is the proportion of an organization's proceeds disbursed as dividends. It could also be calculated as a percentage of cash flow, which leaves out depreciation as non cash item. Growing organizations tend to payout modest or zero in the way of dividends since they require putting in cash in the business. Cyclical organizations with unstable income such as equipment manufacturers are likely to execute very low payout ratios given that they can't sustain a high dividend in lean times. Mature organizations with stable income and strong cash flows permitting them to disburse a higher proportion of their proceeds.

Even though dividends in most cases are used to give back returns to shareholders of a company some companies choose ignore such policies (Brealey, Myers and Allen

2011), they include entities such as Google and Amazon plc .The choice not to disburse can be dictated by such factors as the economy not doing well, companies may also have gathered very little net returns not permitting them to distribute, legal restrictions and contractual obligations etc.

Linter's (1956) suggested that development forecasts of an organization, the recurring variation of investment opportunities are significant factors affecting firm's dividend policies.

Difference in paying dividends among firms appears to be affected by firm specific variables such as investment necessities and income fluctuation. Linter's (1996) contends that policy of dividends too is a factor of an organization effect translating as similar bond with influencers of dividend disbursement by organizations being in identical businesses.

Dividend payout decisions are a brain child of Miller and Modigilani (MM, 1961) who presented dividend irrelevance theory premised on the views of an ideal market. The pair pointed out that dividend disbursement was of insignificant consequence on value to organization's share while bird in the hand theorem confirms connection amid the dividend disbursement and organization's worth relies on the decision of the owner's desire for benefits. It is due to the unknown benefits of prospective principal gain that the majority of the investors frequently like to get dividends today than wait for the upcoming gains in capital. Tax theory confirms tax to be influencing the choice of those investing and the reason they prefer low dividend disbursements over capital growth. Ahmed and Javid (2009) interrogated an upcoming market and concluded that a number of factors influenced the way organizations in Pakistan disburse dividends. A number of scholars examining soaring growth organizations infer those seasons of great development, organizations are expected to pay regular dividend. The disbursement of dividend is because organizations

see share values as being dictated by such disbursements. Payment of dividends is a function of a number of variables viz shareholding, earnings, market control, asset base, expansion rate, availability of cash, uncertainties in business , and style showing earlier period and potential prospects (Amidu and Abor, 2006)

Sometimes there are instances when a payout ratio goes beyond 100 per cent by an organization dipping into its funds or have a loan to maintain the dividend even when its profits take a hit. The other way of doing it is by an organization offering a dividend reinvestment plan where a number of investors choose to take their dividends in shares instead of cash.

The NSE is the Kenyan stock market on which stocks and bonds trade. The NSE comprises of several Stakeholders which includes the Government, Investors, Issuers (listed companies) and the financial services regulators (NSE, 2013). Sixty eight companies trade in NSE as at 2017 in sectors classified as: Agriculture, Automobiles and accessories, Banking, Services and Commercial Construction Industry, Petroleum and

Energy,Insurance, Investment Services, Manufacturing and Allied and

Telecommunication and Innovations. Since its inception in 1964, the NSE has embraced a fast pace trajectory in the form of volumes traded, capitalization, number of listed organizations and foreign investment flowing in as compared to competing securities such as Uganda Securities Exchange, Rwanda Securities Exchange and even Tanzania

Securities Exchange in the East African Community.

1.1.1. Stability of Dividend Payout

Lintner (1956) while looking for the significance of constancy of dividends considered United States firms discovering organizations usually have their projected target payout ratio which agents think that owners love when stable and amplified payments. Agents are worried with disbursement variation over intensity of amounts collaterally paid. They manage their dividend gradually in tune with set percentages of fractions of earnings to be disbursed to the owners in what they call smoothing of the dividends, they would not simply amplify the payout ratio unless they are confident that the increase would not reversed in the future(Amidu and Abor ,2006).

Majority of the organizations begin paying dividends on attainment of a height of business old age where striking investment possibilities are by and large less obtainable while cash flow creation is stable and growth is slow when looked at with respect to previous records.

Diminishing or nonpayment of a dividend is like declaring organization is going bankrupt. The choice of policy to pay dividends must and will remain a well thought out decision so that reducing amounts to pay or to raise such amounts must be accompanied by a sustainability report by the management. In the event an organization was to announce higher dividends or massive cuts the markets would definitely react to accommodate the shock. Stability dividend payout ratio policy should therefore signal sustenance or reduced exposure to risks in the business.

The biggest challenge of implementing a stable dividend payment is that upon establishment, it cannot be pulled down without greatly disturbing the pocket of the investor and the latitude enjoyed by the firm in terms of financial positioning. For a firm, with a trend of stable dividends payments, if it fails to pay a dividend for any reason, this

act will have a control on the price of a stock listed because it will convey information that the operation may not be just pleasant in the future. Failure to pay dividend is deemed as cut in wages since firms with stable dividend policy reduces the available liquid cash from pockets of investors which rely on such income.

1.1.2 Share Returns

Ross et al (2010) suggests share return of stock sold and bought in the bourse is double fold; the standard or anticipated income which is dependent on the knowledge of the owners on the shares transacted and their ability to project the future of the share and the risks thereof. This uncertain portion comes from unforeseen happenings exposing the shares within the financial year which includes profit caution declaration.

In stock market, the traders place their money hoping of earning some profit. This profit can be referred to as "share returns" which takes the shape of yields gotten by selling and buying of shares or the dividends received. Dividends are disbursed to the owners out of the net income earned in the periods of; say after three months, six months or twelve months. The share prices and proceeds are bound to be influenced by multiple uncertainties happening inside a country and also events happening globally. The share returns are very susceptible to prolonged electioneering with noise in the nation, fiscal crises, and calamities such as tremor, cyclone, mud slides, and global oil prices fluctuations, and price raises effects, change in Government regulations, and change in laws. Stock returns would therefore indicate the season's information (McKenzie, 2008)

Mackowitz (1952, 1959) suggested that returns of stock could also be attributed to risk free assets and suggested the following formula for working out the return.

$E(Rj) = Rf + \beta j\ [E(Rm) - Rf]$

E(Rj) - expected return
Rf - Risk free asset

Rm -market return

Decision to hold an investment for a longer period and future value of dividend is done after appraising the present value of the future for both usually out of consideration of speculative trading and short run movements. The EMH axioms dictates traders have a clear perception and come up with balanced estimate of the ratio of income to assets based on what they project the earnings to be in the future. However this assertion is disputable given traders are after certain immediate proceeds and therefore their forecasts do not aim for longer periods (Crotty, 1990).

1.1.3 Stability of Dividends Payout and Share Returns

Shares with superior level of stable payment of dividend are deemed to have higher returns in comparison to the ones with unpredictable dividend payments (Beer, 1994). Glen et al. (1995) while considering the issue of dividend payment at both emerging and developed economies concluded that the bonus disbursements ratios in developed nations are approximately sixty five percent of Organization Economic Corporation Development (OECD) countries. Subsequently, in spite of organizations in such countries setting target payout percentages they reluctantly follow such policies. Adaoglu (2000) interrogated the

dividend documents of organizations quoted at the ISE and concluded that the companies in Turkey espouse non-stable dividend paying policy. Ghassan Omet (2000) in "Dividend Policy Behavior in the Jordanian Capital Market" spanning a period of between 1985-1999established a practice of regular cash dividend policy.

1.1.4 Listed Companies of Nairobi Securities Exchange (NSE)

The major bourse in Kenya is the Nairobi securities exchange. 20-Share Index implemented as catalogue is used to determine blue chip companies' financial success. They number twenty which have posted attractive profit margins over financial year under consideration. This index in February, 1994 posted an all-time high of 5030 points. After multiple considerations another mode of appraisal was adopted in the name of the NSE All Share Index (NASI) in 2008 with the purpose of measuring the in general bourse principal as compared to fee activities to identified organizations.

As at 31st December 2016, the number of companies listing at the NSE stood at 67.These companies are classified into the following segments : Agricultural , Automobile and Accessories, Banking , Commercial and Services , Construction and Allied , Energy and Petroleum , Insurance , Investment , Manufacturing and Allied and Telecommunication.

Listing catalogue emphasize that each listed security issuer is expected to come up with a yearly report detailing audited annual income statements in line with International Auditing Standards and forward to the NSE in a period of less than quarter year to the close of its financial year and the season encompassed by financial statements should be twelve months. Most organizations listing at the NSE are fond of varying their dividend provisions

as: stock dividend or cash dividend to their shareholders from the income accrued in the year. Munyua (2004) roots for organizations to adopt stable dividend policies to benefit competing interests of both shareholder and corporate and protect the shareholders right to dividends. Genesis of trading in bonds in Kenya commenced in 1954 with the birth of NSE as an association of willing brokers. It currently handles huge volumes of stock trading and is globally vibrant and deemed the largest in East Africa. Overtime NSE has promoted investor confidence by modernizing its infrastructure. In

1963, stock market activity took a dip due to risks associated with independence in Kenya. Stability later picked up, trust restored and the NSE has since experienced oversubscription of the initial public offers (IPOs) according to Munga, 1974.

In 1980s a policy reform would ensue by the Kenya government to stir up sustainable economic growth with an effective, workable and controlled monetary system. This saw private public partnership with private sector delving in the economic matters taking away pressure from public enterprise on the exchequer. This was achieved privatization of the public companies with government releasing substantial amount of shares it held to private sector and willing citizens. The capital markets authority initiated in 1989, with the sole intention of urging a fair, orderly and cost effective capital market in Kenya. NSE in 2006 set up the computerized trading software, which has improved business volumes with the market turnovers going beyond Ksh120 billion a day due to faster transactions. Latest statistic showing foreign investors have overtaken local investors in NSE.

NSE is one of the quickest growing exchanges in the global map with local and international investors falling over each other to catch a share of the NSE by investing in the stock being sold in the Kenyan market. Since Ken Gen initial public offer, the NSE has seen large volumes of stocks traded by investors. The innovation of technology in Kenya is doing wonders for NSE since at the touch of the button one can get real information of what is going on in the markets in terms of performance of various if not all firms, the gainers and losers.. Following the over subscription of Safaricom most investors retail and institutional are being careful in investing in the NSE doing so when they have assessed the risks and returns involved.

The NSE 20-Share Index is measure of financial soundness of top twenty best companies with consistent sound fiscal results and which by 1994 had a cumulative 5030 points. NSE All Share Index (NASI) was introduced as a substitute index to the NSE 20-Share Index to assess the general bourse capitalization as opposed to fee fluctuations' of specific firms. NSE was chosen because it is the biggest in terms of stocks trading in East Africa with 68 firms trading at any one time and has developed infrastructure attracting even foreign and international players implying that information can easily be verified with ease.

1.2 Research Problem

Miller and Modigliani (1961) understood the markets to be perfect and advised that payment of dividends was irrelevant and had no bearing on the share return of any organization. Researches later confirmed that markets cannot be perfect given that the assumptions held by Modigliani and miller were so ideal to be true therefore dividend payout would affect value of the share return. In bird in the hand theory the investor's choice of dividend over retained earnings is so organization having substantial payout

ratio improves the share price, Gordon (1956; Lintner (1956); Fisher (1961; Walter (1963). All the argument for preference of cash in hand is because of fewer risks tied to it than the supposed capital gain to be enjoyed at a later date.

The tax theory as suggested by (Brennan et al, 1970) dividends is highly taxed heavily and instantly while capital gain is taxed when shares disposed of. The choice to levy taxes at a later date made capital gain to be very popular than dividend declared. Jensen and Meckling

(1976) suggested that there exists the difference pitting agents against owners over who should have a say over what part of the earning is to be distributed and retained in the organization. Tax preferences by investors sieves those who buys into dividend disbursements and those who would rather they go with capital gains. Because the available literature seems to be disagreeing on the regular payment of dividends this study wishes seeks solution to the puzzle: Does stability of dividend payout affect the share return of listed companies at NSE?

1.3 Objective of the Research

The following research focused on stability of dividends payout and its influence on share returns of listed companies at the NSE.

1.3.1 Specific Objective

To check on the influence of stability of dividends payout on shares return for listed companies at the NSE.

1.4 Value of the Study

This study was to help managers in organizations be in a position to put together policies on stability of dividends payments with respect to share return. In coming up with such policy the policy maker has got to ensure it is sustainable and consider all factors possible

that may greatly influence share return beside the stable dividend payout ratio and look into the matters of the market reactions which in one way or the other portend boon or bane to the listed organization.

These studies would help research institutions improve on the already existing literature dividend payout and share return. Given that this study considers one independent variable against one dependent variable there is need to subject other factors combined against the share return to ascertain their influence on it. This research will also help normal and budding investors in making knowledgeable decisions on their investments. When

information is available for investors to consider it is plays a bigger role in making decision which is informed.

It will help the government and capital markets authority in formulating prudent regulations that ensures all stakeholders are accommodated. The decisions made must be ones that will favour both investors and companies and make every sector of the economy to grow particularly the listed organizations' but with a keen eye by the capital markets authority on behalf of the government ensuring that listed organizations adhere to ethics of the market

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CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This section looks at the interrelated text in four parts. First part dwells on introduction while part two covers the theoretical review with attention on stability of dividend payout theories. Part three deals with empirical review while part four summary of the literature review. The study focuses on stability dividends payout influence on share return of listed firms in NSE.

2.2 Theoretical Review

Stability of dividend disbursement policy of an organization is anchored on irrelevant dividend hypothesis and relevant dividend hypothesis. Proponents of dividend irrelevance theory hold the worth of organization to be dependent on income of organization ignoring how the proceed is appropriated.. So that for any two organization s one paying dividends while the other not would still be having similar value. They include Modigliani and Miller (1958, 1961), Beslley and Brigham, Baker and Wurgler, Kohler. According to dividend relevant theory paying dividend plays a critical role in the life cycle of organization in a number of ways including controlling what the managers can invest in and how much. Proponents of the dividend relevant theory include: Gordon, Walter, Keown, Brealey and Myers.

2.2.1 Dividend Irrelevance Theory

A number of scholars and economists consider an organization's worth to be reflected by its ability to generate income and unforeseen activities of its investments so that the choice of paying dividends or reinvesting into the enterprise does not influence its worth (Miller and Modigliani, 1961). When the decision to invest by an organization is taken up, the decision about the earnings based on dividends and the earnings to be retained loses value when measuring the actual worth of that organization. The theory has the limitation of assuming a perfect market which is rather ideal where citizens and businesses do not pay taxes and markets are seen to be perfect (Gitman & Zutter, 2012).

The key factor that affects the appraisal of an organization is its earnings, which can be traced to the organizations structures of investment and the supposed upcoming prospects. As soon as the investment policy is clear the dividend record might not be a pressing issue to pursue. In the event an investor needs extra cash, he can always sell a part of his investments to plug the financial gap he is experiencing. In the same breath, if a shareholder has no current cash obligation, he can always plough back the received dividend in the share. If indeed dividend is irrelevant then why would a number of firms continue declaring and having stability dividends payout as a policy at NSE?

2.2.2 The Residual Theory

According to this theory dividends disbursed by organizations are outstanding following organization's retaining money for all available and attractive positive Net Present Value projects. This theory therefore contends that payment of dividend by an organization does not in any way affect the market value of a firm. No investment opportunity should be

handled as an opportunity cost for dividend payment .Amidu and Abor (2006) in their research found substantial negative connection on the development of the value of an organization and dividend disbursements.

Investors in this category of residual theory consequently are indifferent to payment of dividends by organizations but lean toward how high income is earned in the future.
Critiques of this theory complain that it has no experimental backing, but a reflection of reasoning which is expected in the corporate organization. Why? Organizations tend to give preference to all net present value projects before sparing money to disburse to owners.

2.2.3 Dividend Relevant Theories

Gordon (1959) related the bourse worth of a firm to the dividend disbursements. He debunked MM's assumption which he said may not always be found valid and as such was lacking in all practical sense. In doing so he suggested that traders have to pay levy on dividends expected or the capital gains, floating, transaction and agency costs must be accounted for and that managers in practice do not share complete information with shareholders. Another scholar who disputed MM's assertion is Walter.

2.2.3.1 Bird in Hand Theory

This theory suggests existing connection linking the worth of organization and payments of dividend. It compares dividends as more fulfilling over capital appreciation given money today isn't money tomorrow. Consequently, investors would favour dividends to capital gains (Amidu, 2007) due there less uncertainty, organization they advise ought to mind strong dividend percentages coupled with soaring dividend yield to enjoy better

returns. Those investors have high appetite for organizations which tend to pay more dividends to those paying less. Players in the markets also rate such organizations favorably on the face value compared to those organizations which do not pay dividends at all. This rating can allow the organizations to get finances from capital markets since the credits raters will vouch for such organizations on the basis of know your customer perspective. The advantage is that the organization will be given preferential treatment and enjoy exclusive services.

2.2.3.2 Signaling Theory

This theory of dividend argues that information content in declaring and analysis of the dynamics involved about the dividend policies will consequently affect the individual share returns. The management of organizations uses the above ideas to make decisions and changes to be made about the future earnings of the company (Keown, 1998). In so many ways announcement of the dividend payments can influence the attitude of the investors about the riskiness of the firm particularly by referring to the stable dividend policy where the actual riskiness of the firm remains unchanged (Brealey & Myers, 2002).

It is agreed that dividends are relevant to the extent that they have advising value. A firm can relay statements about its future prospects of expansion to inform shareholders so as to create a positive rapport with them. Because of the differing accounts on declaration of dividends have on the value of the share returns the research seeks to unearth the positive impact of paying stable dividends in relation to the share prices of listed firms at NSE.

2.2.3.3 Agency Theory

Jensen and Meckling (2006) argue that management goes about their work not with a view to the increasing wealth of the shareholders. They affirm that "An agency correlation is an agreement in which one or more parties (the principals) engage another party (the agent) to offer certain service on their behalf which entails entrusting of some decision-taking authority to the agent". The argument is revolving around the priority of agents and owners aren't in tandem.

Agency dividend theory recognizes that there exists conflict between owners and managers particularly if dividends are not paid so that the managers' appetite to award themselves incentives which might go contrary to the shareholders wealth maximization policies abound (Baker, 2009). Paying dividends allocates resources to shareholders thereby doing away with the need for incurring agency costs such as transaction costs which comprise the sum which may have to be used up acquire full information about a firm's investment plans and future earnings.

2.2.2.5The Clientele Effect Hypothesis

A number of traders are paying attention to returns after-tax, the dissimilar conduct of dividends and capital gains taxing decides liking for dividends in comparison to capital gains. The fundamental nature of the clientele effect is that organizations devise their dividend policy choice premised on the customers they are targeting to serve (Litzenberger and Ramasawmy, 1979). Pettit (1977) retired people are probable to cling to high dividend shares for the reason that they pay minor taxes. What are interesting are those organizations it's those investing who choose where to so as per the taxes subjected when the

organizations themselves do not attach a lot of premium on whom they attract because they come anyway.

Those in little tax brackets depending on regular and stable revenue are fascinated with organizations paying soaring regularly dividends. Certain investors prefer organization investors with heavy cash flows and who are likely pay high dividends and at the same time investing in organizations that pay high taxes but retain substantial amounts for investments out of the proceeds earned.

2.4 Empirical Studies

A limited company is incorporated with a view to generating proceeds to the owners of organizations, unless prescribed otherwise (Osakeyhtiölaki, FINLEX 2016). The proceeds protect the owners from the danger the owners have taken when they choose to put in a certain amount in an organization. Organizations divide the yield earned as dividends to owners (Brealey, Myers and Allen 2011). Choosing to disburse the dividends is pegged on the organization plans with its strategic team. Assuming organization in subject is a quoted in a bourse, the dividend payment choice more often than not affects its share return on the share exchange. The association between dividend policy and share return unpredictability is good for understanding how varying decisions affect the organization share return.

Two conflicting scholarly arguments exist. One arguing that paying dividend is relevant when looking at the organizations worth called dividend relevance policy (Godon, 1959). The other school suggests: dividend policy is irrelevant in connection to the organizations worth called dividend irrelevance policy (Modigliani and Miller, 1961).

Share return instability is the rise and fall in an organization share return. Those who own shares bear the systemic risk (Hussainey, Mgbame and Chijoke-Mgbame 2011).

Instability symbolizes of wide fluctuations in the return while low instability signifies not extreme fluctuations. As instability increases, the risk of the share also increases. Implying that uncertain shares are typically having erratic return changes and the standard deviation for the return is great. Low instability stocks proves predictable in their price variation and such variances on the cost of the stock are greatly lesser. Pettit

(1977) study on how taxes and transaction costs influence clientele effect of dividends. Found that firms suffer negatively if transactional costs and taxes are levied on them; it perpetually leads to a decline in dividends payout given to the shareholders.

Dividend payout ratio and yield are common variables considered in studying dividends influence on share returns. Payout ratio is the fraction of profit distributed to owners in organizations while yield considers amount a given organization resorts to paying as dividends annually in relative the share price (Gitman & Zutter 2012).

Fersio et al (2004) looked at dividend disbursement as unnecessary for appraising firm performance. They argue that ploughing back income other than paying them out to owners would help improve cash flow. They admit that by improving of dividends disbursement may reduce the amount that is required to grow the organization. A number of times paying of dividends only help to keep those investing thinking that the organization is doing well when in reality nothing is going on and before late multiple loses are experienced. Bittok (2004) conducted a study on the effect of dividend policy in Nairobi stock exchange in

order to establish the value of the firms. The study found that certain dividend policies if formulated positively it enhances the financial worth and growth of firms.

Murekefu & Ouma (2012) supports the payment of dividends by organizations. In interrogating the link between payments of dividend and how organizations fare on financially by looking at net earnings they conclude that any organization that adopts dividend payment is favoured. They argue that those investing in shares love immediate returns as compared what shall come in the future hence the adage a bird in hand is worth two in the bush. Hasley (2011) did conduct a research on residual income stock price valuation model establish findings to teach and providing learning outcomes on the methodologies that can allow management stakeholders in dividend payout on whether to pay or not pay.

Ijaiya et al (2013) finds no relationship between paying of dividends and what goes into the hands of those investing and having looked at the listed organizations in Nigeria concluded that there exists very little significance of paying dividend in relation to the worth of the organization. Anyone therefore investing in any organization with a view to reaping from the perspective of dividends is likely to be shocked by the returns.

Given certain organizations enjoying stability of dividend payout while others don't is critical for the management in the organization to weigh the impact of varying dividend policies. Lintner (1956) concluded that many organizations wish to maintain their dividends at regular level successive years. Baskin (1989) worked on dividend policy and the volatility of common stock. Fama & French (2000) interrogated the diminishing

dividends and if it had a consequence on the distinctiveness of the organization being analyzed. Bittok (2004) attested that there exists relationship between the dividend payout ratios when checked against value of the firm.

2.5 Summary of Literature Review.

In the real-world taxes and transaction cost must be paid not as suggested in the Modigliani and Miller dividend irrelevant theory. Organizations are in the habit of meeting their financial needs of growth before paying attention to owners' dividends qualifying residual theory.

Owners incurring agency costs related to supervising managers' actions which are implied costs ensuing from the obvious divergence of concern between owners and managers. The payment of dividends may provide an opportunity to streamline the values and eliminate the delegation problems experienced between agents with owners by eliminating the unrestricted funds on hand to managers. This is in support of agency theory.

Due to information asymmetry by managers they having insider knowledge on the organizations future prediction than those intending to invest quite often exploitation of fluctuations in dividends to relaying information to the public on the organization's prospective income and growth. The targeted buyers and sellers might view dividend announced being agent's appraising an organization's performance and forecast. An upward dividend disbursement may be construed that the firm has good upcoming prospects and therefore its share return will respond confidently. A cut on dividend may be construed as symbol of insolvency.

Majority of those investing are concerned with profit after tax; the varying tax handling of dividends and capital gains might set the former against the latter the fundamental nature of the Clientele effect. Investor in small tax category depending on reliable revenue is paying attention to organizations that pay appealing consistent dividends. Large scale investors including institutions enjoying better cash outflows are attracted to strongdividend shares. Investors in comparatively expensive tax bracket enjoy merit to invest in organizations that plough back substantial amount of their earnings to improve on capital gains. This study interrogates stability of dividends payout and share returns of companies listed on the NSE considering that the above theories are not having points of convergence on dividend payout and how it affects worth of the firm.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This section considered route taken in studying the influence of stability dividends payout on share returns of quoted organization in Nairobi securities exchange. It looks at the design of the research, census and sample, collection of data procedures and data analysis techniques.

3.2 Research Design

This study sought to ascertain the relation between stability of dividend payment and share return of companies quoted at the NSE. The researcher did use descriptive research design. Descriptive research design generates a precise record of the occurrences in a specific situation within a given population. According to Sekaran and Bougie (2011), descriptive study is undertaken with a view to establishing and describing the properties of variable under investigation in a situation.

3.3 Population

This is an entire assortment of units, cases or items with some similar and recognizable properties of particular nature. The census for this study entails 67 listed companies at Nairobi Securities Exchange. The target population is shown in table 3.1.

Table 3.1 target population

SECTOR	FREQUENCY
Commercial & Services	13
Construction & Allied	4
Energy and Petroleum	7
Insurance	7
Investment	5
Automobiles & Accessories	1
Agriculture	7
Manufacturing & Allied	8
Telecommunication & Technologies	4

3.4 Sample Size

Convenient sampling technique is adopted in this study picking NSE 20 share index companies of the total population translating to 20 firms being selected. Convenient sampling technique is a non probability sampling method that allows the researcher to choose intended information with biasness. This allows valid generalization because fair

representation will be realized. A time frame considered is 4 years covering the period from 2013 to 2016.

3.5 Data Collection

Documentary review was used to collect secondary data from historical sources. Kinoti (1998) the documentary review method of collection involves keenly reviewing several secondary sources of data based on the themes of the study. To collect the data the researcher sought for a letter of introduction from the university. Secondary data obtained from the profit and loss accounts and fiscal position of quoted organization from their websites and at NSE. Dividend yield and dividend payout ratio shall be collected and entered on data collection sheet for *the* NSE 20 index shares companies as shown on appendix 1 & 2 attached. The years under consideration are 2013-2016. Among these twenty companies there are some who practice stability of dividends payout while others do not.

3.6 Data Analysis

Kinoti (1998) Data analysis involves looking through collected data and editing it for errors which occur due to failure to record, wrong entry, ineligibility of words or numbers in recordings, jammed recording instruments, outliers and miscalculations. Once the data is edited for completeness, the researcher will tabulate the data and input it into relevant statistical package (Statistical Package for Social Sciences) for analysis. Data collected was analyzed using descriptive (percentages, variance, mean, standard deviations) and inferential statistics which included: analysis of variance (ANOVA), correlation, regression model and standard of coefficient methods because single factor is used to compare the

effect of one other factor. Similar studies have used among many other methods the following: Panel Data, Ordinary Least Square method, Generalized Method of Moments techniques. The regression model was conducted based on certain assumptions as follows: test of linearity, test homoscedacity, test of homogeneity, and test on independence of errors. The tests are useful in ascertaining the workability of the regression model.

The following regression model was adopted:
SR=*f* (DPR)

$SR = \alpha_o + \alpha_1$ DPR which can translate to $Y=\alpha_0 + \alpha_1 X_1 + è$

SR =Share Return

DPR (Dividends Payout Ratio) = Dividend per share (DPS)

Earnings Per Share (EPS)

EPS = Profit After Tax

Number of common outstanding share

DPR = DPS

EPS

Y = Share Returns calculated as follows R = Cp-PR

PR

Where, R -return of the share CP

-current price of the stock

PR - previous price of the stock.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This section puts forward outcome of data collected. It comprises: response rate, descriptive statistics, correlation plus regression results and interpretation of the study result.

4.2 Response Rate

The study targeted a census of 67 firms quoted at the Nairobi Securities Exchange but complete data was generated from 20 companies quoted at the NSE thus a response rate of 100%, which provided adequate data, which could be generalized, to all listed firms considering that the 20share index companies have representation of all the of companies trading at the Nairobi Securities Exchange.

4.3 Descriptive Statistics

This segment sought to present a description of the variables employing the mean and standard deviation analyzed in describing the relationship between both share return and stable dividend payout. Results are presented in table 4.1 below.

Table 4.1 Summary Descriptive Statistics

Item	Mean	Variance	standard deviation
Share return	0.16167333	0.60378229	0.7770343
Share price	92.277027	20764.2897	144.09819
DPR 36%	0.09643387	0.310538	

Source: Research Findings

Table 4.1 gives descriptive summary statistics. Results show that average stock returns for the 20 share index listed firms was 0.1617 while the average of dividend payout ratio was

36%. If the share return is at 0.1617 it therefore depicts an influence of 36% by DPR on it. The finding is supported by a study by Baskin (1989) working on dividend policy and the volatility of common stock. The findings also show that the average share price level for the firms was 92.28. The variance for share return, share price levels and dividend payout ratio was 0.6038, 20764 and 0.0964 respectively whereas standard deviation for share return, share price level and dividend payout ratio was 0.777, 144.1 and 0.3105

respectively.

4.4 Correlation Analysis

Pearson moment correlation formula was used to obtain the relationship between share return and dividend payout for a period between years 2013 to 2016 for 20 share index companies listed at Nairobi securities exchange. In correlation analysis values range from -1 to +1) findings reported to have a value of +1 are positively correlated. Findings were presented in table 4.2.

Table 4.2 Correlation findings

Average dividend payout	Average share returns	Pearson moment correlation
0.151	0.358	r=0.146*

Findings in table 4.2 indicates a correlation statistical value of r=0.146 which indicates a minimal relationship between share return and dividend payout for 20 share index companies listed at Nairobi securities exchange. The average dividend payout was done by obtaining a mean of all values of dividends payout between the years 2013 - 2016. The average share returns was obtained by obtaining a mean average for share returns between the years 2013 -2016.

4.5. Regression model

The study did statistically employ regression model to identify whether dividend payout predicts the value of share returns ($\mathbf{Y=\alpha_0 + \alpha_1 X_1 + è}$). Once the assumptions of the regression

model assumptions and tests are held constant it allows findings of it to be reported. The findings of the regression summary model were reported in table 4.2.

Table 4.3 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.168[a]	.028	.015*	.31074

a. Predictors: (Constant), Share Return

Source: Research Findings

Table 4.3 depicts summary of the regression model. The R^2 is the coefficient of determination and explaining the amount of disparity attributable to independent variable (Stable Dividend Payout).The results on the table indicate the coefficient of determination value (R-square) is 0.028. This indicates that the dividend payout ratio explain 2.8% of deviation of the share return. 97.2% cannot be explained by Dividend payout and which in the regression model is the error. The value of adjusted R-square was 0.015 implying only

1.5% of the share returns can be attributed to dividend payout

ratio.

4.5.1. Analysis of Variance (ANOVA).

This is the data analysis procedure used in establishing if there exists glaring variance amid two or more groups at a given probability level. One way analysis of variance is where groups are compared only on one variable. The independent variable is measured at nominal level while dependent variable is measured at ratio. The findings of ANOVA tests were reported in table 4.4.

Table 4.4 ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.200	1	.200	2.072	.154[b]
	Residual	6.856	71	.097		
	Total	7.056	72			

Significant level=0.05, 2-tailed

a. Dependent Variable: DPR

b. Predictors: (Constant), Share Return

Table 4.4 indicates the analysis of variance (ANOVA). The data feedback reveals insignificant association between stability of dividends payout and share returns of firms listed at Nairobi Securities Exchange since the F- value 2.072 and a significance figure of

0.05 shows that F-statistic >0.05 and therefore the relationship between the study variables were found to be insignificant.

4.5.2. Coefficient of Determinants

The standardized coefficients were obtained to establish the value that defined dividend payout attributes on share returns. Table 4.5 presents the findings.

Table 4.5 Coefficient of determinations

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.342	.037		9.215	.000
	Share Return	.067	.047	.168	1.440	.154

a. Dependent Variable: DPR

Source: Research Finding

Table 4.5 contains results of the regression coefficients. The table shows a positive relationship between stability of dividend payout and share return of firms listed at the NSE. However, the relationship is insignificant at 95% confidence level. From the findings the regression equation can be rewritten as follows:

$Y = 0.342 + 0.067X_1 + e$

If the dividend payout were to be held constant then the share return would stand at 0.342 but for every dividend payout the value of share return jumps by an extra 0.067 beside the constant

0.342.

4.6 Interpretation of the Findings

Findings of the study have revealed a positive but insignificant relationship between stability of dividends payout and share returns. This points out to a direct correlation between stability of dividends payout and share returns of listed firms. It indicates there was 2.8% variation of share return when subjected to consistent dividend payouts while the rest 97.2% which is attributable to the error (μ). Kivale (2013) observed that organizations pay dividend as a sign of present and upcoming prospects. Priya and Nimalathasan (2013) noted that the signaling theory of dividends shows that organizations display their buoyancy for the future by dividend payments. Investors quite often use this data in appraising an organization's share return.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This part deals with the summary of the research, the conclusion and recommendations of the research, limitation of the research and suggestion for additional research.

5.2 Summary

The objective of this study was to establish the relationship between stability of dividends payout and share returns of firms listed at Nairobi Securities Exchange.

The study reviewed the dividend irrelevance theory, agency theory, signaling theory, the bird in hand theory and the clientele theory to explore the relationship between stability of dividends payout and the share return of listed firms at NSE. The independent variable was dividend payout while share returns were the dependent variable.

The study targeted a population of the 67 firms listed at the Nairobi Securities Exchange however; data was only obtained from 20 firms hence a response rate of 30%, which was considered sufficient for the study.

The summary descriptive statistics revealed an average share return for the listed firms is 0.1617 whereas the average share price level is 92.28.The average dividend payout ratio is 36%. The correlation results indicate a significant positive correlation between share return and stability of dividends payout.

5.3 Conclusion

The findings of this study are based on a sample of 20 companies listed on the Nairobi securities exchange over four years period from 2013 to 2016. The study focused on the influence of stable dividend payout on share returns of the 20share index companies and checks on their mean and standard variations, coefficient of determination. A regression model picked to show the relation gives some light after analysis.

The study found a positive relationship between stability of dividend payout and share returns but the relationship was insignificant. This study infers that there is a direct proportionality between stability of dividends payout and share returns of the listed firms at NSE. The insignificance of the result goes a long way in confirming that there could be a lot more factors that influences share return of a company beyond the dividends paid by such companies.

The model adopted cannot be conclusively being said to be the determining of share return and more work is to be done on those other factors. Extrapolating the findings with insignificant relation may not be exciting since in most cases none of the variable is moved.

5.4 Recommendation of the Study

The study established that dividend payout ratio explain 2.8% of the effects on share return of companies quoted at the Nairobi Securities Exchange leaving 97.2% percent unsolved. The implication is existence of other indicators affecting share return and which this study did not consider. Consequently the study advises that further research be carried out to discover additional influencers which may explain the remaining 97.8% by researchers who may want to build on this field of finance.

The study recommends that in order for investors' worth to be maximized in any organization the agents of organizations quoted at NSE should consider stability of dividend payout to improve the share return of their organization. This they can do knowing that there are certain factors that also play a bigger part.

The study equally recommends that organizations develop policies on stable dividend payment even when profits take a dip so that share prices do not react negatively and impact on the share return to the disadvantage of the investors. Investments companies can use this knowledge to guide their potential clients.

The study also recommends that the management of listed firms should develop an optimal dividend payout policy, which maximizes the returns of their firms since the study

established that dividend payout influences stock returns. In doing so they must remain alive to matters sustainability of such payments.

The study recommends that study be extended outside Nairobi securities exchange and cover other emerging markets and even firms that don't list at NSE so that the findings can be extrapolated fairly.

5.5 Limitations

This study dwelt on the association between stability of dividend payout and the share return of organizations listed at the Nairobi Securities exchange implying that the findings may not apply to other markets for instance developed markets and the results may not be true to other firms not listed therein. The findings also covered a period of four years which is such a short period and only 20 firms which may not be sufficient to analyze the existing relationship.

The study confined itself to the years 2013 and above ignoring massive data that could have been mined from the years before 2013.

The study captured secondary data and never looked at the primary data and such a lot could have been left out because of overreliance on data some of which there authenticity could only be vouched by the affected organizations and no one else.

This study heavily relied on technology especially on data mining to the extent that if a researcher is not able to access internet and its charges time management would be an issue.

Most organizations are no longer having hard copies for analysis with every effort being made to conserve trees and so technology is key.

5.6 Suggestion for Further Research

The study investigated the relationship between stability of dividend payout and share returns for firms listed at the Nairobi Securities Exchange. Notably, the study has determined the independent variables (stability of dividend payout) only manipulate 2.8% of the deviation on share return. The study recommends an additional study on the other parameters that influence share returns of listed firms.

The study also recommends an additional research using a longer time period of 15 and above years and cover the entire population of NSE to unearth relationship between stability of dividend payout and share returns.

So as to also understand how things are working out in the region the study recommends that East African bourses should also be analyzed to help project the findings so that those investing within the region are catered for in terms of information available. This will help reduce the information asymmetries and arbitrages that may exist to the disadvantages of so many investors.

The study recommends that besides share return other dependent variables be subjected to dividend payout ratio to find out how it influences those parameters. This will put to rest the influence of dividend payouts on a number of financial performance parameters.

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APPENDIX 1.0 DATA COLLECTION SHEET

COMPANY NAME	EAB(LTD)
ITEM	YEAR

NO	DESCRIPTION	2013	2014	2015	2016	
1	DPS					
2	EPS					
3	MVS					
4	PAT					
5	OUTSTANDING SHARES					

APPENDIX 2.0: LIST OF COMPANIES

NO	FIRM	2013-2017 FOR ALL FIRMS
1	Nation Media Group	
2	Kenya Airways Limited	
3	Scangroup Limited	

4	Centum Investment Company Ltd	
5	Kenya Commercial Bank Limited	
6	The Cooperative Bank of Kenya Limited	
7	Standard Chatered Bank Limited	
8	Barclays Bank Limited	
9	Equity Bank Limited	
10	CfC Stanbic Holdings Limited	
11	East African Breweries Limited	
12	British American Tobacco Kenya Limited	
13	Athi River Mining Limited	
14	Bamburi Cement Limited	
14	KenolKobil Limited	
15	Kenya Power Limited	
16	Kenya Electricity Generating Company Limited	
18	BRITAM (Kenya) Limited	

19	Safaricom Limited	
20	SASINI	

APPENDIX 3: DATA COLLECTED FOR THE FIRMS CONSIDERED

	Years	DPS	EPS	DPR	SHAR PRI	SHAR RET
	2013	5.5	8.54	64%	290	0.094

EAB	2014	4	8.21	49%	308	0.062
	2015	7.5	11.32	66%	272	-0.116
	2016	12	12.2	98%	244	-0.103
SCAN	2013	0.4	2.6	15%	48.25	-0.295
	2014	0.5	1.5	33%	45.25	-0.062
	2015	0.5	1.12	45%	30	-0.337
	20 16	0.5	1.12	45%	18.15	-0.395
KQ	2013	0	-6.35	0	304	0.293
	2014	0	-2.25	0	335	0.101
	2015	0	-17.21	0	202	-0.397
	2016	0	-17.53	0	189	-0.064
CENTUM	2013	0.04	3.77	1%	33	1.672
	2014	4.39	4.54	97%	61	0.848
	2015	0.64	10.45	6%	46.5	-0.237
	2016	1	11.75	9%	37	-0.203

KCB	2013	2	4.82	41%	47.25	0.588
	2014	2	5.63	36%	57	0.206
	2014	45	48	94%	908	0.513
	2015	49.5	49.76	99%	600	-0.339
	2016	39.5	42.34	93%	680	0.133
ARM	2013	0.6	3.01	20%	90	1.022
	2014	0.5	2.74	18%	86	-0.044
	2015	0.02	5.84	0.30%	41	-0.523
	2016	0	3.3	0%	25.5	-0.378
BAMBURI	2013	10.5	9.55	110%	100	-0.459
	2014	9.8	12	48%	139	0.39
	2015	7	14.49	42%	142	0.022
	2016	6	14.44	42%	137	-0.035
KENOL	2013	0.1	0.38	26%	10.1	-0.254
	2014	0.2	0.74	27%	8.7	-0.138
	2015	2	6.49	31%	40	-0.298
	2016	3	6.64	45%	28.75	-0.281
COOP	2013	0.5	2.2	23%	17.75	0.408
	2014	0.5	1.69	30%	20	0.126
	2015	0.8	2.14	37%	17.7	-0.115
	2016	0.8	2.64	30%	13.2	-0.254

KE RE	2013	0.6	3.99	15%	15.5	0.448
	2014	0.7	4.48	16%	17.05	0.1
	2015	0.75	5.1	15%	21	0.231
	2016	0.8	4.7	17%	22.5	0.071
BARC	2013	1	1.4	71%	100	5.349
	2014	1	1.54	65%	139	0.39
	2015	1	1.55	65%	150	0.0791
	2016	1	1.36	74%	129	-0.14
EQTY	2013	1.5	3.59	42%	30.75	0.294
	2014	1.8	4.63	39%	50	0.626
	2015	1.8	4.65	39%	39.25	-0.21
	2016	2	4.38	46%	30	-0.235
NIC	2013	1	6.12	16%	60	0.568
	2014	1	7.07	14%	57.5	-0.041
	2015	1.25	7	18%	43.25	-0.247
	2016	1.25	6.73	19%	26	-0.394
BAT	2013	46	48	96%	600	0.217
	2015	0.25	1.29	19%	8.9	0.022
	2016	0.3	1.64	18%	14.9	0.674
KPLC	2013	0.3	2.23	13%	14.15	-0.172
	2014	0.3	3.58	8%	14.45	0.021

	2015	0.3	3.81	8%	13.25	-0.083
	2016	0.5	3.69	14%	8.15	-0.385
KENGEN	2013	0.6	2.38	25%	13.55	0.54
	2014	0.4	1.29	31%	10.3	-0.239
	2015	0.65	5.24	12%	6.8	-0.339
	2016	0	3.07	0%	5.8	-0.147
SAF	2013	0.31	0.44	70%	10.85	1.15
	2014	0.47	0.57	83%	14.05	0.295
	2015	0.64	0.8	80%	16.25	0.157
	2016	0.76	0.95	80%	19.15	0.157
CFC	2013	0.63	12.97	5%	87	1.071
	2014	0.95	14.38	7%	124	0.425
	2015	12.53	27.54	45%	82.5	-0.335
	2016	12.31	25.94	47%	70.5	-0.145
NATIO	2013	10	13.4	75%	314	0.414
	2014	10	13.1	76%	263	-0.162
	2015	10	11.8	85%	191	-0.274
	2016	7.5	8.9	84%	93	-0.513
BR	2013	0.3	1.21	25%	15.15	1.525
	2014	0.3	1.31	23%	29.75	0.942
	2015	0.3	-0.5	-60%	13.15	-1.236

	2016	0.3	1.26	24%	10	-0.24