EMPIRICAL INVESTIGATION OF THE RELATIONSHIP BETWEEN DIVIDEND POLICY AND AGENCY COSTS: A STUDY OF FIRMS LISTED AT THE NAIROBI STOCK EXCHANGE

By

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DECLARATION

This project is my original work and has not been presented for a degree in any other university or any other award.

Acholla Shadrack Asuke

Signature.....**Date**.....10:11:2009.....

This project has been submitted with my approval for the award of Master of Business Administration degree

Mr. Mirie Mwangi

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Signature.....**Date**.....

DEDICATION

To my wife Joyce, my children Beth, Perry, Jesse and Paula. Thank you for the support and the encouragement when I needed it most. To my sister Risper, for the encouragement and wise counsel received always.

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ABSTRACT

The research set out to establish an empirical investigation in the relationship between the dividend policy and agency costs of the firms listed at the NSE. The main objectives of the study was to:

1) Establish the agency costs of the firms listed at the NSE
2) Establish the dividend policies of the firms listed at t6he NSE
3) To establish the relationship between the dividend policy sand the agency costs of the firms listed at the NSE.

Secondary data was obtained from the published accounts of all the firms listed at the NSE in the years 1999-2008. The firms which were not listed in the stock exchange in this period, or were suspended from the exchange for any duration were excluded from the study. Firms which did not declare dividends for some considerable period due to some technicalities were ale excluded.

Multiple linear regression was used to establish the relationship between th agency costs and the dividend policy of the firms while trend analysis was used to establish the dividend policy of the firms.

The study established that the firms listed at the NSE do use a policy of paying a constant amount per share but they also reduce the dividends in case the earnings fall or when they have a more viable investment opportunity. The agency cost of the firms was established to be high especially for the small firms. No significant relationship was established between the agency costs and the dividend policy or that the firms listed at the NSE do not use the dividend policy to mitigate the agency costs.

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ABBREVIATIONS

AGM	Annual General Meeting
AIMS	Alternative Investment Market Segment
CMA	Capital Markets Authority
DTE	Dividends to Earnings Ratio
EPS	Earnings per Share
FIMS	Fixed Income Securities Segment
FOMS	Futures and Options Market Segment
GDP	Gross Domestic Products
IOS	Investment Opportunity Set
MIMS	Main Investment Market Segment
ML	Maximum likelihood
MNC	Multinational Corporations
NPV	Net Present Value
NSE	Nairobi Stock Exchange
OLSQ	Ordinary least squares

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND

Dividend is a portion of a firms' earnings distributed to its shareholders. It may be distributed from the current earnings or from the firms retained earnings. Legally firms are not allowed to declare dividends from their capital, as this will jeopardize the position of other stakeholders such as bondholders. Dividend may be distributed in many forms including property dividends, which are in terms of physical assets of the company and stock dividends, which is the payment of additional stock to current shareholders (Njuguna, 2007) and cash dividends. Farida (1993), states that dividends are generally understood to mean distribution of cash to its shareholders. For this study, dividends will be defined as cash dividends given out from the current or retained earnings because this is what is common in the Kenyan context.

Breally and Myers (1991) define dividend policy as the trade off between retained earnings on one hand and paying out cash and issuing new shares on the other hand. Miller and Modigliani (1961) defined dividend policy within a given firm, as the choice from among alternative cash payout sequences that are consistent with a given sequence of net cash flows for the firm. However, they caution that it should not be confused with investment policy in a firm that can obviously affect the market value.

Dividend policy has a direct impact on the company's financing options and investor perception of the company's future prospects (Njuguna, 2006). A firm may want to retain as much profits as possible to finance its future operations while the shareholders may be more interested in current funds thereby conforming with the bird in hand theory. This theory states that dividends today are more certain than the future capital gains, which may be affected by other factors as demand and supply (Lintner, 1962 and Gordon, 1963). This theory posits that shareholders will prefer certain dividends at a time and therefore favour a higher dividend payout ratio. A balance therefore has to be established between the interests of the company and that of investors (Kuria, 2001).

The significance of a dividend policy is to determine the amount of earnings to be distributed out to the shareholders as dividends and the amount to be ploughed back to finance a firms future growth. Retained earnings are the most important internal sources of financing the growth of a firm (Barclay and Smith, 1995). At the same time, dividends may be considered desirable to the shareholders since they tend to increase current returns. Dividend policy has a direct impact on the companies financing options and investor perception of the company's prospects (Njuguna, 2006).

Various dividend policies are practiced by firms such as; constant dividend payout ratio, constant amount per share, residual dividend policy and constant dividend per share plus extra. These policies are appropriate in different circumstances such as, residual dividend policy being appropriate with the shareholders wealth maximization, constant amount per share protecting firms during low returns, and the constant dividend per share plus extra, which is more used by firms operating in more volatile areas. Each dividend policy has an effect on the amount or proportion of the earnings to be retained in the firm to finance its growth and the proportion to be given out as dividends.

Agency relationship is a contract in which one or more persons (the principals) engage another person (the agent) to take actions on behalf of the principal. It involves the delegation of some decision-making authority to the agent (Jensen and Smith,2000). In such a relationship, a problem arises as to how the principal will force/motivate the agent to act in the principal's best interests. This is what is referred to as the agency problem. The agency problem arises because of the impossibility of perfectly contracting for every possible action of an agent whose decisions affect both his own welfare and the welfare of the principal.

The main goal of management is to maximize the shareholder wealth (Gitman, 1998). This means that the management should always act in good faith and have the best interests of the shareholders. However, they are sometimes tempted to serve their own interests, instead of those of the shareholders. When this happens an agency problem exists (Medura, 2000).

The big challenge that the principals have is how to make or encourage the agents to act in their best interests instead of personal aggrandizement. The principals resort to measures such as improving on corporate governance issues, devising an ownership structure that is responsive to their needs and relying on legal protection to achieve this. In order to encourage the agents (managers) to act in their best interest, and to compensate the managers for such actions, the principals incur also agency costs.

Agency cost are expected to be high in a case where there is excess free cash flow available to the management which they can use for purposes which may not be beneficial to the shareholders. To reduce this free cash flow, a dividend policy which gorges out as much earnings as possible to the shareholders as possible should be advocated. A liberal dividend policy, which gives out more cash to the shareholders, is expected to reduce the agency costs.

While agency theory predicts substantial and stable dividends, Easterbrook (1984) argues that dividends could be either a result of, or a solution to the agency conflicts. The higher the dividends are, the greater the need to go to the capital markets for new outside funds and the greater the effectiveness of monitoring. There is no clear explanation on whether the dividends policy will reduce the agency costs or whether it is in itself a result of the agency conflict.

The main question that should be addressed is how the agency costs in an organization should be reduced or how the managers' interests should be aligned with those of the shareholders. Much as dividends can be used to mitigate the agency costs problem, another problem arises, that of retaining funds to finance the growth of a business thereby assuring a business higher earnings in the future. Yes, other sources of funds can be used such as debt, issuing new shares, but this will increase the transaction costs, and agency cost of debt.

1.1.2 Nairobi Stock Exchange

The Nairobi stock exchange was approved as an overseas stock exchange in July 1953 by the London stock Exchange. In 1954, it was registered under the societies Act as voluntary of organization stockbrokers. The Nairobi stock exchange is currently made up of 22 stock broking firms. The Nairobi stock exchange deals in both fixed income securities and the variable income

securities. It consists of both the primary and secondary market. It is currently divided into four segments; the main investment segment (MIMS), the alternative investments segment (AIMS), the fixed income securities segment (FIMS) and later futures and options market segment (FOMS). There are 55 listed companies with a market capitalization on of about Ksh.682.818 bn as at 19th February 2009 (source NSE). It is also among the biggest and the most active sock exchanges in Africa.

The NSE has both the primary and secondary market. It has acted as an important avenue through which the government has carried out the divestiture programme and for firms seeking additional capital. It deals with both the fixed income securities such as Treasury and, corporate bonds, debenture stocks, and preference shares and variable income securities such as ordinary share.

1.2 STATEMENT OF THE PROBLEM

For the investors to get good returns, the management of various joint stock companies is expected to make decisions that will be in the best interest of all the stakeholders and to reduce excessive consumption of perquisites. For this to take place, the investors incur agency costs. The agency costs incurred by the investors end up reducing what would have been available to them. The problem, which the investors face therefore, is how to reduce agency costs and to align the managers' interests with their own. The problem of the agents diverting the organizations assets to personal gains or benefits is real or the problem of the agents acting sub optimally is real and the principals have been grappling with this issue for sometime. Literature on this is still evolving.

Based on the researches carried out, most financial analysts agree that dividends are an important tool that can be used to mitigate the agency costs (Easterbrook 1984, Rozeff 1982, Jensen and Meckling 1976) some analysts present evidence to the contrary. Lie (2000) and Noronha et al (1996) suggest that dividend policy is not a product of an attempt to mitigate the free cash flow problem. Morck, Shleifer and Vishny (1988) found out that increasing insider holdings does not imply a direct reduction of the agency costs as modeled by Jensen and Meckling (1976).

Locally a number of studies that have been carried out on the firms quoted at the NSE. Njuguna (2006) carried a study to establish the determinants of the dividend policy. Iminza (1997) investigated whether dividend payout ratios affect stock prices. Farida (1993) studied the parameters, which are important in the determination of dividends by publicly quoted companies. Bitok (2004) studied the effect of dividend policy on the value of firms quoted. Karanja (1987) carried out a study on the dividend practices of firms. Olteita (2002) studied the relationship between ownership structure and performance of the firms. Medline (2007) studied the relationship governance and performance of the firms. No study has been carried out to establish the relationship between the dividend policy and the agency costs of the firms listed at the NSE.

Firms with substantial cash flows have a tendency to have higher agency costs Jensen (1986). The existence of the free cash flow may lead to the management undertaking suboptimal projects. A reduction of the free cash flows and agency costs can be achieved by giving the excess cash flow to the shareholders in the form of dividends. This project therefore seek to establish the relationship between the dividend policy and agency costs of the firm's quoted at the NSE and how the dividend policy can be used to mitigate the agency costs.

1.3 OBJECTIVES OF THE STUDY

The objectives of the study are:

To establish the dividend policies practiced by the firms listed at the NSE

To determine the agency costs incurred by the firms listed at the MSE

To establish the relationship between the dividend policies and the agency costs of the firms listed at the NSE.

1.4 IMPORTANCE OF THE STUDY

It is anticipated that the findings of this study will be important to:

The academicians as it will contribute to the existing knowledge of literature, and create a better understanding of the dividend policies practiced by the firms quoted at the NSE. It will also inspire them to carry out further research in the same or related areas.

The investors and other stakeholders in a firm as it will lead to a better understanding of how the dividend policies affect the agency costs of the firms making them come up with policies or strategies that favour or safeguard their interests.

The management and directors of the various companies in formulating their dividend policies to align their interests with those of the other stakeholders (shareholders and creditors). It will also enable them understand that dividend policy will be of interest to both the insiders and the outsiders.

The investment bankers and stockbrokers as it will enable them to advice their clients appropriately taking into account the investor

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

In large corporations, there is normally a separation of ownership and management. This allows ownership to change without change in management a part from allowing the firm to hire professional managers. Although this arrangement is good, it may bring problems especially where the objective of the owners and the managers differ. The managers may opt for a more luxurious working lifestyle, try to build empires with the shareholders money or shun unpopular decisions. This conflict in interests is what is called the agency problem (Medura 2000).

An agency problem arises between shareholders and directors, shareholders (through directors) and creditors (Breally and Myers, 2000). Shleifer and Vishny (1986) also emphasize the agency conflicts between majority shareholders and minority shareholders. This is prompted by recent evidence that dominant shareholders extract rents at the expense of small shareholders through funneling of assets and profits such as the use of unfair transfer pricing between controlled entities.

Agency conflicts arise in a case where the managers of a firm do not own 100% of the shareholding/ownership of a firm. Jensen and Meckling (1976) formulated the implications of the agency problems. The partial ownership of a firm may make managers not to perform at their best or to indulge in conspicuous consumption of the free cash flow at their disposal. The managers may also end up investing in projects with negative Net Present Values (NPV). All these will be at the detriment of the other shareholders. In order to check the behaviors of the managers and to ensure that they act with the interests of the other shareholders, these shareholders incur agency costs. It may be argued that, the higher the proportions of shares being held by the owner/managers the lower the agency costs and vice versa.

Agency costs can be defined as the costs a principle incurs to align his interests with the interests of the agent or costs incurred to ensure that the agent acts in the best interests of the principal.

Where a manager plays it safe, avoids risk by only investing in less risky projects and avoiding the more risky projects with larger positive NPV. Alternatively, where a manager engages in entrenching investments, or where managers end up consuming higher perquisites or end up with reduced efforts, the resulting loss to the shareholders in value is known as agency costs (Brealy and Myers, 2000).

In modern corporations, the agency problem exists between the management and the owners, the financiers (creditors) and the owners (Brigham and Huston, 2004). Recent research indicates that large shareholding gives rise to another agency problem between large shareholders and minority shareholders (Shleifer and Vishny, 1986). Guglar and Yurtoglu (2001) also argue that in countries with high concentration of ownership the conflict between large controlling and small outside shareholders is one of the main issues in corporate governance. In case of state controlled firms, a double agency problem exists between the managers and the state, and between the state and the citizens (Gugler, 2003). There is also a conflict of interest between shareholders and bondholders since the shareholders can expropriate bondholder's wealth by increasing the risk of investments (Jensen and Meckling, 1986).

Grossman and Hart (1980) show that if a firms ownership is widely dispersed no shareholder has adequate incentives to monitor the management closely as the gain from a takeover for any individual shareholder is too small to cover the monitoring costs, this will affect a firms performance. On the other hand, Fama and Jensen (1983) and Onyango (2004) argue that a more concentrated ownership structure will minimize the agency problem by aligning the interests of the residual claimants and the managers and hence lead to a firms improved performance.

It can be argued that the agency problem will be more acute when the free cash flow increases when the other factors are held constant. The free cash flows can be reduced by the use of a dividend policy. A more liberal dividend policy will ensure that the free cash flows available at the disposal of the managers are reduced. This will force them to seek funds for expansion from the open market where they will be subjected to close scrutiny by the market. This finally may reduce the agency costs of the free cash flows incurred by the shareholders (Easterbrook, 1984).

Frequent use of the external finances will also increase the transaction costs incurred by the firm (Rozeff, 1982).

Research findings of the past studies indicate that dividend payout (policy) can be used to reduce the agency costs of a firm. The higher the dividends the greater the need for firms to go to the capital market for new outside funds and the greater the effectiveness of monitoring especially by the outsiders. Gordon (1959), Lintner and Bhattacharya (1979) discuss the agency or transaction costs which arise when shareholders attempt to monitor and control managers. They argue that when shareholders and managers goals diverge, regular dividend payments can mitigate agency conflicts by distributing investment returns –the bird in hand –thus reducing the scope of potential management abuse of resources. Agency costs can also provide an explanation for little or no dividends, if they represent excessive risk aversion on the part of the managers who have substantive personal wealth tied up in their firms in the form of company stock, or in the case of bankruptcy, their jobs. Easterbrook (1984), notes that riskier projects..."enrich shareholders who do not pay any of the gains to bondholders, yet bondholders bear part of risk of failure". This by extension may also be true that bondholders are heterogeneous with respect to their risk preferences information access or tax margins thus creating divergent goals between different stockholder groups.

Dividends are really a puzzle as noted by Fisher in 1976. Why do firms pay dividends and then go to the stock exchange for more funds. Why do shareholders prefer dividends, which are taxed at higher rates than capital gains? There are various explanations existing, which unfortunately do not clearly provide conclusive answers. The theories put forward in the finance literature are also conflicting. If the primary function of dividends is to force firms into the capital market, then regular and stable payouts are more valuable (Easterbrook, 1984) and are likely to be more effective. Higher dividend payout ratios will also help in eliminating or reducing free cash flow (Jensen, 1986) at the disposal of the managers.

The important aspect of dividend policy is to determine the amount of earnings to be distributed to shareholders and the amount to be retained within the firm to finance its growth. Barclay (1995) posits that retained earnings are one of the most important internal sources of financing

the growth of a firm. It should be noted that dividends are desirable from shareholders point of view, as they tend to increase their current returns.

2.1 Agency costs

Where a manager plays it safe, avoids risk by only investing in less risky projects and avoiding the more risky projects with larger positive NPVs. Alternatively, where a manager engages in entrenching investments, or where managers end up consuming higher perquisites or end up with reduced efforts, the resulting loss to the shareholders in value is known as agency costs (Brealy & Myers, 2000). They can also be defined as the costs a principle incurs to align his interests with the interests of the agent or costs incurred to ensure that the agent acts in the best interests of the principal.

The agency costs may also be seen as the value loss to shareholders arising from divergences of interests between shareholders and corporate managers. Graham, (1997) classified agency costs into four classes as follows: Monitoring expenses, Bonding expenses Opportunity costs Structuring expenditure.

Monitoring expenses are those incurred by the principal to measure, observe and control an agent's behaviour. They prevent self-satisfying behavior by the management. They are incurred on audits and control procedures used to assess and limit managerial behaviour to those actions that tend to be in the best interest of the owners (Graham, 1997). Initially the principal incurs these costs, but Fama and Jensen (1983) argue that they will ultimately be borne by the agent, as their compensation may be adjusted to cover these costs.

Since the agents ultimately bear monitoring expenses, they are likely to set up structures that will see them act in the best interests of the shareholders or to compensate them accordingly if they do not. A good bonding contract should aim at encouraging the managers to make the decisions that are in the best interest of the shareholders. Since managers may not do all that the shareholders wish, bonding expenses provide a means of making managers do some of the things that shareholders would like by writing a less than perfect contract. Bonding expenses protect against the potential consequences of dishonest acts of the managers. Principals pay third parties

to obtain fidelity bonds for this purpose. It is a contract in which the bonding company agrees to reimburse the owners any financial loss arising because of dishonest acts of the managers (Graham, 1997).

Opportunity costs result from difficulties that large organizations have in responding to new opportunities. The organization structure, decision hierarchy, and control are left out because of the management inability to seize upon them quickly (Graham, 1997).

Structuring expenditure, result from managerial compensation to correspond with the share price maximization. They fall in two groups' viz-incentive plans and performance plans. Incentive plans encourage managers to act in a manner that will increase the future share prices. A popular approach is the stock option. This allows managers to purchase stocks at the market price at the time of granting the option.

Performance plans compensate managers based on proven performance measured by earnings per share (EPS) and other ratios of return. The reward will be given if the managers achieve certain predetermined targets. They may be given in form of cash bonuses or performance shares (Graham, 1997). Brigham and Houston (2004) state that managers can be encouraged to act in the stockholders best interests through incentives that reward them for good performance but punish them for poor performances using mechanisms such as;

Managerial compensation, which are designed to attract and retain able managers and to align managers' actions as closely as possible with the interest of the stockholders.. These include, annual salary, bonus paid at the end of the year depending on the firm's profitability and stock options. Direct intervention by shareholders, where informed investors (mostly institutional) choose to influence the firms operations directly or they go, for shareholder-sponsored proposal to be voted on at the annual general meeting (AGM). Threat of firing; where the shareholders for non-performance fire top executives. Hostile takeovers; when firms stocks are undervalued relative to its potential because of poor management. The managers of the acquired firms are normally fired or are demoted.

To measure agency costs we use two alternative efficiency ratios, which are operating expense divided by annual sales, and the asset utilization ratio, which is annual sales divided by the total assets. This first ratio is a measure of how effectively the firm's management controls operating costs including perquisite consumption and other direct agency costs. We will also use the proportion of the shares held by the insiders to those held by the outsiders and number of shareholders as a measure of dispersed ownership. The agency costs can be reduced by monitoring the manager's efforts and actions and giving the managers the right incentives to maximize value. Medura and Roland (2007) suggest that internet can also lower the agency costs for multinational corporations (MNC) a part from allowing the locals in a country to buy into the shareholding of an MNC.

There are various ways, which have been suggested for use in controlling the agency costs. Jensen and Meckling (1976) proposed the use of leverage as a way of reducing agency costs. This is so because an increase in gearing ratio reduces equity financing which finally reduces conflict between management and the stockholders. Jensen (1986) states that acquiring debt, forces managers to disburse cash in the form of pre-specified payment of principal and interest. This prevents the managers from investing the free cash flow in projects with negative NPV. This therefore reduces the agency cost of free cash flows. However, the use of more debt increases the agency cost of debt and therefore must be used only up to a certain limit.

Jensen and Meckling (1976) and Fama (1980) suggest the use of incentive contracts as a way of controlling agency costs. These contracts may take the form of share ownership and stock options. The problem with the incentive contracts is that they may create a number of self-defeating opportunities for managers especially when conditions attached are loosely made. Again, it has been established that share prices may be affected by external conditions that are beyond the control of the managers. Therefore, rewarding them or punishing them through this method may not be fair.

Threat of hostile takeovers can also act as a mechanism for controlling agency costs (Jensen and Ruback, 1983).When a hostile takeover takes place, managers of target firms may be removed,

or demoted to junior a position. This should act as a deterrent measure and encourage the managers to act in the best interests of the shareholders and thereby avoiding hostile takeover.

Rozeff (1982) and Easterbrook (1984) suggest that dividends can also be used to reduce agency costs. Jensen, (1986) advocates for lower free cash flows at the hands of managers in order to increase financial discipline. He suggests that higher dividends can achieve this purpose therefore providing a cost effective substitute to shareholder monitoring. Rozeff, (1982) and Easterbrook, (1984) suggest that paying higher dividends reduces the amount of free cash flows available to the managers and increase the chance that a firm will have to raise new funds in the securities market. This makes the firms operations to be scrutinized by various players such as investment bankers, regulatory agencies and providers of new capital. These players can conduct detailed analysis of the firm's financial position.

While agency theory predicts substantial and stable dividends, Easterbrook (1984) argues that dividends could be either a result of, or a solution to the agency conflicts. The higher the dividends are, the greater the need to go to the capital markets for new outside funds and the greater the effectiveness of monitoring. There is no clear explanation on whether the dividends policy will reduce the agency costs or whether it is in itself a result of the agency conflict.

2.2 Dividend payout ratios

2.2.1 Constant payout ratio

Using this approach, a firm is expected to pay dividends at a fixed rate of its earnings over a period. For example, a firm may decide to be paying out 25% of its earnings as dividends. The dividends per share is expected to fluctuate with the firms earnings and consequently incase a firm does not report any earnings no dividends will be declared. This policy may create uncertainty among the ordinary shareholders especially those who prefer dividends to capital gains and therefore they might demand higher required rate of return (Gitman, 1998).

2.2.2 Constant amount per share

This is where the dividends per share (DPS) is determined in advance and is fixed irrespective of the earnings in any given period. The DPS is normally fixed at low levels, which can be sustained by a firm and only increased when a firm is sure of its future earnings and sustaining the levels of dividends. It create certainty of dividends and is therefore preferred by the shareholders especially those who rely on dividend incomes. It protects a firm during periods of low earnings when DPS is set at low levels.

2.2.3 Residual dividend policy

Using this policy dividend payment will be made as a consequence of the investment decisions. Dividends will be paid out of the earnings left after investments have been financed or dividends will be paid if there are no profitable investment opportunities available in a period. The dividend decision therefore is a passive decision to the investment decision. This policy is consistent with shareholder wealth maximization (Pandey 1991).

2.2.4 Constant dividend per share plus extra

This policy advocates for the payment of affixed DPS every year although extra dividends will be paid in years when supernormal profit are realized. The extra dividends when paid should not be construed to mean a commitment on the part of the firm to continue with it. It gives a firm some flexibility to increase the dividends when the earnings are high and reduce the when earnings are low. It is more used by firms operating in highly volatile sectors (Gitman,1998).

2.3 Dividend Theories

2.3.1 Models of Information Asymmetries

Because of market imperfection of asymmetric information, three theories have emerged to explain the dividend policy. Dividend signaling models try to mitigate the information asymmetry between owners and managers through the unexpected changes in dividend policy. The free cash flow hypothesis is an ad hoc combination of the signaling and the agency cost paradigms; the payment of dividends can decrease the level of funds available for perquisite consumption by the corporate managers. Bhattacharya (1979,1980), Miller and Rock (1985), Ambarish, John and Williams (1987) and others offer signaling models of corporate dividend

policy. Ross (1977) states that dividends are relevant and the managers can use them to relay or signal important information to the market. Payment of higher dividends may mean expected higher future profits to maintain the high dividend levels. Low dividends would signal low expected profits in the future. This theory may push the managers to adopt higher dividend payout ratios.

The proponents of the signaling theories believe that a corporate dividend policy can be used as a means of passing a message across and has a lower cost than other means. The use of dividends as signals implies that alternative methods of signaling are not perfect substitutes (Ashquith and Mullins, 1986).

2.3.2 Tax adjusted models

The tax-adjusted models divide investors into dividend tax clienteles, an argument first proposed by Miller and Modigliani (1961). Modigliani (1982) found that the clientele effect is responsible for only nominal alterations in portfolio composition rather than major differences predicted by Miller (1977). Masulis and Trueman (1988), model cash dividend payments as products of deferred dividend costs. They predict that investors with differing tax liabilities will not be uniform in their ideal firm dividend /investment policy. As the tax liability on dividends increase (decrease), the dividend payment decrease (increase) while earnings reinvestment increases (decreases). Farrar and Selwyn (1967) assumes that investors maximize after tax income thus in a partial equilibrium framework ,investors have two choices .Investors choose the amount of personal and corporate leverage and also whether to receive corporate distribution as dividends or capital gains. This model advocates for share repurchase rather than dividend payments.

Tax adjusted models are critiqued as being incompatible with rational human behaviour. This prompted Miller (1986) to suggest a tax sheltering income by high-tax bracket individuals. He suggested that individuals might refrain from purchasing dividend paying shares just to avoid tax liability of these payments. Alternatively, using a strategy first advanced by Miller and Scholes (1978), shareholders can purchase dividend-paying stocks and receive the distributions, then simultaneously borrow funds to invest in tax-free securities. DeAngelo and Masulis (1980) advanced the use of dividend specific, personal tax shelters to avoid tax liabilities. They argue

that Miller and Scholes (1978) tax shelter strategy is not sufficient to induce positive dividend payment at equilibrium.

2.3.4 Myron Gordon, the bird in hand theory

Gordon theory states that dividend policy is irrelevant when the internal rate of return, r, is equal to the cost of capital, k. and when all other assumptions hold. When the assumptions are modified to conform to reality, Gordon concluded that the dividend policy will affect the value of a share even when the internal rate of return, r, is equal to the cost of capital, k. This view is based on the assumption that under condition of uncertainty, investors will tend to discount future distant dividends at a higher rate and therefore have a preference for near dividends to future dividends.

This logic is described as the bird in hand argument. With this theory, an investor is assumed to be willing to pay a higher price for stocks with higher dividends than stocks with lower dividends even if both companies have the same earnings.

Graham and Dodd (1934) stated, "The typical investor would most certainly prefer to have his dividend today and let tomorrow take care of its self. No instances are on record in which withholding of dividends for the sake of future profits has been hailed with such enthusiasm as to advance the price of the stock" this is upholding the bird in hand theory as espoused by Gordon (1962).

2.3.5 Dividend irrelevance – Modigliani and Miller (1961)

According to Modigliani and Miller (1961), dividend policy of a firm is irrelevant, as it does not affect the wealth of the shareholders. Their argument is that a firm's value depends on its earnings, which result from their investment policy. They argue that dividend policy is only about simplifying earnings between dividends and retained earnings and is of no significance when determining the firm value. Shareholders are indifferent to receiving their cash flows as dividends or capital gains as the firms investment policy does not change. Dividend payout only reflects the firm's residual cash flows. When there is a positive free cash flow, they pay dividends but issue shares when there is a negative free cash flow. M.M. recognizes the

information content to the market about future earnings. This hypothesis is based on the assumptions that, the firm is operating in perfect market where no single investor is large enough to affect the market price of a share, investors are behaving rationally, information is freely available and there are no transactions and floatation costs, there are no taxes or if they are there, the tax rates applicable to dividend and capital gains are equal, the firm has a fixed dividend policy, and risks of uncertainty do not exist.

2.3.6 Residual dividend theory

Earnings can be used to finance a firm's investments or disbursed as dividends. Myers (1984) state that managers will prefer retained earnings as a primary source of finance because retained earnings are cheaper than making a fresh issue. By utilizing the retained earnings, a firm avoids floatation costs such as advertising, underwriting and brokerage fees. Residual dividend policy implies that a firm should use as much of its earnings as possible in financing its investments and only pay dividends after meeting its investment needs. Dividend policy will be treated as irrelevant and will only be a passive decision variable. Dividend will only be paid form residual earnings after all projects with positive NPVS have been financed.

2.4 Theoretical Models of Dividend Policy and Agency Costs

The potential agency costs arising from the separation of management and ownership was recognized long time ago, differences in managerial and shareholder priorities have existed for centuries. Adam Smith (1937) adjudged the management of early joint stock companies to be negligent in a number of their activities. The problems were more pronounced in the British East Indies Company where efforts to monitor managers were largely unsuccessful due to inefficiencies and costs associated with shareholder monitoring (Kindleberger, 1984). However, Scott (1912) and Carlos (1992) questioned the validity of these assertions. They argued that although the control and organization were inadequate, the continued success and long life of the corporation imply sound management practices. They argued that although some fraud existed, the majority of managerial activities coincided with the shareholders desires.

Modern agency theory seeks to explain corporate capital structure as the result of attempts to minimize the separation of corporate ownership and control. Agency costs are lower in firms

with high managerial ownership because of better alignment of shareholder and management goals (Jensen and Meckling, 1976). They are also lower in firms with large block shareholders that are able to monitor managerial activities (Shleifer and Vishny, 1986). Agency problems result from information asymmetry, potential wealth transfers from bondholders to stockholders through acceptance of high risk and high-risk return projects by managers, and failure to accept positive net present value projects and perquisite consumption in excess of the level consumed by product corporate managers (Barnea, Haugen, and Senbet, 1981).

Dividend policy influences these relations in two ways. Fama and Jensen (1983a, 1983b) espouse that potential shareholder and bondholder conflicts can be mitigated by covenants governing claim priority. These orderings can be circumvented by large dividend payments to stockholders. Debt covenants to minimize dividend payments are necessary to prevent bondholder wealth transfers to shareholders (John and Kalay, 1982). Although potentially substantial in precipitation of agency costs, its dividend payouts are limited by bondholder covenants, dividend payout levels are still below the maximum level allowed by the constraints (Kalay, 1982b).

The second way dividend policy affects agency costs is the reduction of these costs through increased monitoring by capital markets. Easterbrook (1984) stated that when firms pay cash dividends while at the same time going for external financing, they reduce the agency conflicts between the managers and the shareholders. Payouts to shareholders reduce the free cash flow at the disposal of managers thereby reducing their power and making it more likely that they will incur the monitoring of the capital markets, which happens when the firm must raise new capital. Large dividend payments reduce funds available for perquisite consumption and investment opportunities. The efficient monitoring of capital markets reduces less- than – optimal investments hence reduce the costs associated with ownership and control separation (Easterbrook, 1984). Easterbrook (1984) stated that when firms pay cash dividends while at the same time going for external financing, they reduce the agency conflicts between the managers and the shareholders. Payouts to shareholders reduce the free cash flow at the disposal of managers thereby reducing their power and making it more likely that they will incur the monitoring of the capital markets, which happens when the firm must raise new capital.

Easterbrook (1984) suggests that dividends may keep firm in the capital market where monitoring of managers is available at a lower cost and may be useful in adjusting the level of risk taken by managers and different classes of investors. This lowers agency cost. Agency theory suggests that with lower monitoring costs managers are likely to share more of the profits with the investors. As opposed to the use of dividends to mitigate agency costs, Fama and Jensen (1983) and Onyango (2004) argue for the use of a more concentrated ownership structure to minimize the agency problem and hence a reduction in the agency costs. This they argue will align the interests of the residual claimants and the managers. This is consistent with Grossman and Hart (1980) who established that a widely dispersed ownership leads to a case where no individual shareholder has any adequate incentive to monitor the management closely. Thomson (2004) found out that block holder ownership leads to preference for retained earnings, which lower the value of firms for the minority shareholders in continental Europe. On the other hand, Barclay and Holderness (1989) stated that a more concentrated ownership structure might lead to a reduction in value of a firm because managers will consume perquisites and misuse the firm's resources due to their increased power. Shleifer and Vishny (1986) argued that agency costs would be lower in forms with large block shareholder since they are to monitor managerial activities. Agency problems are because of information asymmetries potential wealth transfers from bondholders to stockholders through acceptance of high risk and high return projects by managers and failure to accept positive N.P.V projects and perquisite consumption in excess of the level consumed by prudent corporate managers (Barnea et al, 1981).

Fama and Jensen (1983 a, 1983 b) predict that the potential shareholder and bondholder conflicts can be mitigated by covenants governing claim priority. The debt covenants are expected to minimize divided payments. Dividend payments are likely to transfer bondholder's wealth to shareholders. In firms where dividend payouts are limited by bondholder covenants dividend payout ratio levels are still below the maximum level allowed by the constraints (Kalay, 1982 b).

Fluck (1998) and Myers (2000) also present an agency theoretic model of dividend behaviour where managers pay dividends to avoid disciplining action by shareholders. Rozeff (1982)

found a strong relationship between dividend payouts and a set of variables proxying for agency and transaction costs in a sample of 1000 US firms for the period 1974 – 1980.

Fama and Jensen (1983) and Onyango (2004) argue that a more concentrated ownership structure will minimize the agency problem by aligning the interests of the residual claimants and the managers and hence lead to a firms improved performance. Using leverage reduces the agency costs by reducing the free cash flow available fro spending at the discretion of managers (Jensen and Smith 2000). Grossman and Hart (1980) established that if a firm's ownership is widely dispersed, no shareholder has adequate incentives to monitor the management closely as the gain from a takeover for any individual shareholder is too small to cover the monitoring costs, and this will lower a firm's performance.

Earlier studies starting with Jensen and Meckling (1976), Rozeff (1982), and Easterbrook (1984) concluded that dividends mitigate the "free cash flow" and therefore limit the manager's ability to enlarge his personal perks. Other recent studies however question this conclusion. Lie (2000) examined "access cash flow" theory with a sample of companies that paid special dividends or changed their normally paid dividends. He found a negative non-significant relationship between appositive dividend shock and the firm's stock prices and concluded that the decision to increase dividend is not designed to reduce agency costs but to attract the attention of potential investors to the firm. Noronha et al (1996) also reached the same conclusion. They showed dividend policy is not the product of an attempt to mitigate free cash flow problem when there are other factors such as interests and ownership of institutional investors

Lintner (1956) surveyed corporate chief executive officers and chief financial officers and found that dividend policy is an active decision variable because managers believe that stable dividends lessen negative investor perception. This implies that the determination of dividend policy will directly affect the level of retained earnings and the level of savings.

Unfortunately, there are no fully satisfactory theoretical and empirical agency models of dividends that derive dividend policies as part of some broad optimal contract between investors and corporate insiders, which allows for a range of feasible financing instruments.

2.5 Empirical Results on Dividend Policy and Agency Costs

Rozeff (1982) established that dividend policy for unregulated firms is negatively related to its level of insider holdings. One interpretation of this is that firms with higher levels of insider holdings have less need to signal firm value through dividends than comparable firms with lower levels of insider holdings. He also analyzed dividend payout ratios for across section of 1000 unregulated U.S. firms from1974 to 1980 with regard to firm specific determinants. Dividend payout decision was cast as a tradeoff between transaction costs and agency costs. He included variables that captured investment opportunities, earnings variability on dividend payout, and proxies for agency costs on dividends decisions.

Lloyd, Jahera and Page (1985) used a modified Rozeffs cost minimization model by adding a size variable they applied an OLSQ cross sectional regression to 1984 data on 957 US firms and the results provide support for the cost minimization model and show that firm size is an important explanatory variable.

Schooley and Barney (1940) added a squared measure for insider ownership, arguing that the relationship between dividend and insider ownership may be monotonic. The results from an OLSQ cross sectional regression, using 1980 data on 235 US industrial firms, provide further support for Rozeffs cost minimization model in general and for the hypothesis put forward in particular.

Kim and Vishwanath (1992) studied the influence of transaction costs and agency costs on dividend payout ratios of companies. The cross sectional tests of the models performed on a sample of 357 companies in 1979-1981 related dividend payout ratios to some explanatory variables. The variables included were, the function of equity held by insiders, past and expected growth of the firm, the firm's beta, the total risk of the firm, the number of shareholders of the firm, and the research and development expenditure of the firm. The results of the study indicated that transaction costs and agency costs are likely to influence the firms' dividend policy.

Rao and White (1994) used an innovative approach to Rozeff cost minimization model on 66 private US firms. Using a limited dependent variable. Maximum Likelihood (ML) technique the study established that an agency rationale for dividends applies even to private firms that do not participate in the stock exchange. They noted that perhaps by paying dividends, private firms could still induce monitoring by bankers, accountants and tax authorities.

Hansen. Kumar and Shome (1994) took a broader view of what constitute agency costs, and applied a variant of the cost minimization model to the regulated utility industry. Their prediction was that the agency rationale for dividend should be particularly applicable in the case of the regulated firms because agency costs in these firms extend to conflicts of interest between shareholders and regulators. results of cross sectional (OLSQ) regression for a sample of 81 US utilities for the period ending 1985 support cost minimization model and the contribution to agency conflicts in the firm.

Holder. Langrehr and Hexter (1998) used the cost minimization model by considering further conflicts between the firm and its non-equity shareholders and by introducing free cash flow as an agency variable. The study utilized panel data on 477 US firms each with 8 year of observation from 1983 to1990. The results show a positive relation between the dependent variable and the free cash flow variable, which is consistent with Jensen (1986). Likewise. the estimated coefficient on the stakeholder theory variable is shown to be significant and negative as predicted. The estimated coefficients on all the other explanatory variables are shown to be statistically significant and to bear the hypothesized signs.

Jensen (1986) argued that managers have incentives to make the firms grow beyond their optimal sizes. as this will increase their power by increasing the resources under their control. This will also lead to an increase in the manager's compensation since compensation is positive, related to growth in sales (Kevin Murphy, 1985). Jensen (1986) defined free cash flow, as cash flow in excess of that required funding all projects that have a positive NPV when discounted at the relevant cost of capital. He noted that the problem is how to motivate mangers to disgorge this cash rather than invest it at below the cost of capital or wasting them on organizational

inefficiencies. He stated that this free cash flow could be used to increase dividends or to repurchase stock. Managers can also announce permanent increase in dividends, which is not binding. He therefore suggested the use of debts, which will bind the manager to pay interest and principal. This reduces the free cash flows at the disposal of the managers but increases the agency cost of debt including bankruptcy costs. He therefore suggested an optimal debt equity ratio at which point the marginal cost of debt just offset the marginal benefit.

2.6 Researches on the Nairobi Stock Exchange

Njuguna (2006) used factor analysis on all the firms listed at the NSE for the 8-year period 1999-2005 to establish the determinants of dividend payout ratios. He established that current and future profitability ranked highest. Other factors were cash flow position, immediate financial needs and availability of profitable investment. He also established that the factors focus on the need to balance the shareholders short term needs of dividends and their long-term wealth maximization goals.

Iminza (1997) investigated whether dividend payout affects stock prices and found out that dividends have a significant impact on share prices. She further concluded that the impact is much greater when there is a reduction in dividend pay than when there is an increase in dividends.

Farida (1993) collected data from the 36 companies listed at NSE over a period of 8 years from the various sectors to establish the parameters, which are important in the determination of dividends by publicly quoted companies. She established that liquidity was more crucial for 64% of the companies; working capital was quoted as important for 53% of the sample and 42% cited cash flow as the most important. Only 12 companies quoted profits as important which confirms the dividend smoothening practices when profits drop. 13 companies quoted investments as being important which is consistent with Fama (1968) suggesting no strong relationship between dividends and investments.

Bitok (2004) studied the effect of dividend policy on the value of firms quoted at the NSE over a 6-year period between 1998 – 2003 using regression analyses. The study established that, there is

a weak relationship between the dividend payout ratio and the value of the firm. This is consistent with the tax differential theory advanced by Litzenberger and Ramaswamy (1997) who argued that tax rate on dividends was higher than the tax rate on capital gains and therefore affirm that pays higher dividends will have a lower value since share holders pay more taxes on dividend.

Karanja (1987) carried out a study on the dividend practices on the firms quoted at the NSE. He established that one of the major reasons why firms pay dividends is the lack of viable investment opportunities. Further, he established that a firm's cash position was the most important of timing of dividends. Olteita (2002) studied the relationship between the ownership structure and the performance of the firms listed at the NSE and established that here is no relationship between state, institutional and individual ownership and performance of the firms listed at the NSE. He also established that there is a strong relationship between foreign ownership and the performance of a firm. Medline (2007) studied the relationship between governance and the performance of firms listed at the NSE and established that there is no strong relationship between the two.

As can be seen from the discussion above, research on the dividend policy and agency costs has been carried out in various countries, developed and developing and countries with different legal protection regimes for the shareholders. However, none seems to have been done in Kenyan stock market. It can only be assumed that dividend policies of firms in Kenya are set with the objective of mitigating the agency costs. It is therefore important that this relationship be explored to determine whether the firms listed in the stock exchange use the dividends to mitigate agency costs. This relationship has been established in the other markets and it will be important to establish if it exists in this market also.

2.7 Conclusions from the literature review

In corporations agency conflicts arise between shareholders and directors, shareholders and creditors (Breally and Myers, 2000), majority shareholders and minority shareholders (Shleifer and Vishny 1986), large controlling and small outside shareholders (Guglar and Yurtoglu 2001), managers and the state and between the state and the citizens (Guglar.2003).

To mitigate the agency costs associated with the agency problem various research findings prescribe different measures. Fama and Jensen (1983) and Onyango (2004) advocate for a more concentrated form of ownership. Easterbrook (1984), Jensen (1986), Rozzeff (1982), Jensen and Meckling (1976) conclude that dividend policy can be used to reduce the amount of the free cash flow available thereby reducing the agency costs. Lie (2000) and Noronha et al (1996) concluded that dividend policy may not necessarily be an attempt at reducing the agency costs.Jensen and Meckling (1976) advocated for the use of leverage as a way of reducing the agency costs.

This study seeks to establish the effect of the dividend policy on the agency costs of the firms listed at the NSE or to establish if the firms listed at the NSE use dividend policy to mitigate the agency costs. This study differs from the ones reviewed in the sense that this one is to be carried out in a developing country while the ones reviewed were carried out in developed countries. The studies reviewed were also carried out in countries with strong legal protection of the shareholders while Kenya does not have the same legal protection to the shareholders.

CHAPTER THREE

METHODOLOGY

3.1 Research Design

The research design that was applied in this study was an empirical design. An empirical design is one used to determine whether some relationship exist among a number of variables. This method was successfully used by Bitok (2004) to study the effect of dividend policy on value of affirms listed at the NSE.

3.2 Population of the study

The population of the study was made up of all the firms listed at the NSE during the period of the study. The NSE was ideal for this study due to accessibility, reliability and availability of the required data. The listed firms are grouped into various sectors or industries.

3.3 Sampling plan

The companies listed at the NSE were grouped into the various sectors. Within each sector, firms were grouped according to size. Size was measured using the natural log of the total assets (Smith and Watts1992). The grouping into the various industries is to help in establishing the industry effect while grouping in sizes will help in establishing the size effect. The period of the study will cover 8 years from 1999– 2006. This eight-year period is considered adequate as was used by Njuguna (2006). The period 1999-2006 is justified because this is when the Kenyan economy registered near negative growth and later on emerged to register a steady and uninterrupted growth. This period is considered current and captures current and emerging trends in the market.

3.4 Data Collection

The research will be carried out using secondary data extracted from the published accounts of the firms the firms relating to total assets, dividends paid over the years, earnings for the period of the study operating expenses sales for the period and number of shareholders. Data relating to the share prices and market values of the firms will be obtained from the NSE. The published accounts will be obtained from NSE library, CMA, and the various stock brokerage firms and from the companies' offices.

3.5 Data Analysis

The secondary data obtained was analyzed in general for selected companies listed at the NSE, and an analysis for the various industries and sizes. Regression analysis was used. A variant of Rozeffs cost minimization model was used. The dependent variable was the dividend payout ratio which was calculated as the dividend to earnings (DTE) ratio as used by La Porta et al (2000). DTE will proxy for the dividend policy. This ratio unfortunately is dependent on the accounting policies of a firm but this adverse effect was minimized by the fact that the accounting policies adopted in an industry are generally uniform. For this study, the transaction cost was proxied by the growth of a firm. Growth is the average yearly growth in sales measured over period of the study.

$$DTE = \beta_1 OPER + \beta_2 AU + \beta_3 GROW + \beta_4 IOS + e_i$$

Where:

β_1, β_2, β_3, and β_4 are constants while e_i is the error term

DTE=Average dividend to earnings ratio for the period

OPER=Average operating ratio for the period of the study

AU=Average of the asset utilization ratio for the period

GROW=Average growth rate of revenues for the period of the study

IOS =Investment opportunity set

DTE is the dividends to earnings ratio for the companies over the period of the study .It l proxied for the dividend policy of the companies.

OPER is the operating expenses ratio. It was be measured as an average of the operating expenses to sales ratio for the period of the study. It establishes how the managers of a firm effectively control the operating costs including excessive perquisite consumption and other direct agency costs. It proxied for agency costs.

AU is the asset utilization ratio. It was be measured as the average of the sales to assets for the period of the study. It is a measure of how effectively a firm's management deploys its assets and it is a proxy for agency costs. A firm with a lower asset ratio experiences a higher agency cost. these costs can be attributed to the fact that managers may act in any of the following ways; making poor investment decisions, exerting insufficient effort leading to lower revenue or consumption of excess perquisites making the firm purchase unpopular assets like fancy furniture or executive jets and vehicles.

GROW is the variable for growth of the firm. It is the average growth rate in earnings over the period of the study .A rapid growth rate would mean more need for funds and therefore frequent visit to the capital market .It will proxy for transaction costs .It is hypothesized that the transaction costs will be negatively related to the dividend payout ratio.

IOS is the investment opportunity set available to the firm. It was be measured using the market to book value of the firm. A firm with a high investment opportunity set has more investment opportunities and is expected to have a low payout ratio. It is a proxy for transaction costs.

3.6 Diagnostic Tests

The t-test will be conducted to establish how each of the proxies for the agency costs affect the dividend payout ratios and the f-test will be conducted for the joint significance of all the coefficients. It is expected that the agency costs will be positively related to the dividend payout ratio. Diagnostic tests were carried out using a statistical package SPSS.

CHAPTER FOUR
DATA ANALYSIS

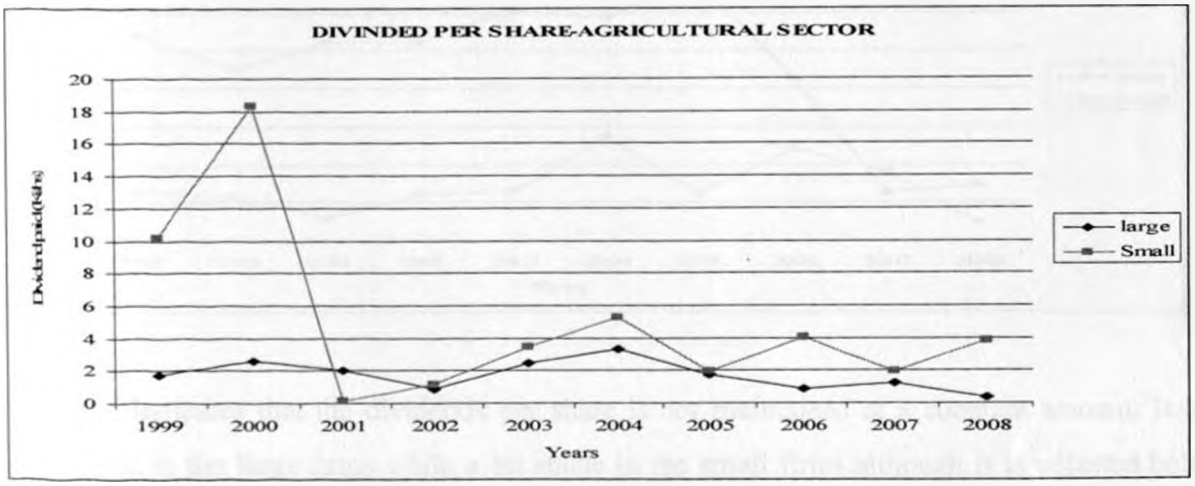
4.1: Introduction

This chapter presents the analysis and findings of the study. The chapter is divided into three parts. The first part establishes the dividend policies practiced by the firms listed at the NSE, the second part establishes the agency costs and the last part establishes the relationship between the agency costs and the dividend policies of the firms. The findings are presented in relation to each of the specific objectives of the study, that is, trend analysis was used to analyse objective one, measure of central tendency mean was used to analyse objective two and regression correlation was used in the analysis of objective three.

4 .2: Dividend policies practiced by the firms listed at the NSE

Dividend policy from the investor point of view are classified into three categories; first, a firm whose dividend growth rate is practicable, that is, such a firm total return (dividend yield plus capital gains yield) would be relatively stable over the long run. Second, a firm's current dividend will not reduce at the same time may not grow at a steady rate but management will avoid cutting the dividend and finally the firms earning and cash flows may be so volatile that investors can not count on the firm to maintain the current dividend over a typical business cycle.

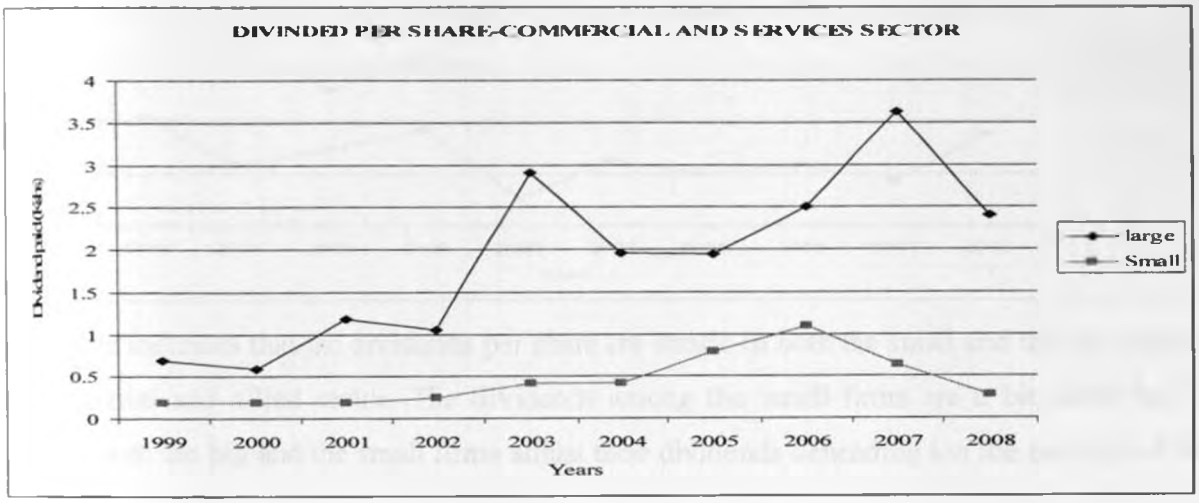
Figure 1: Dividends per share for the agricultural sector



The figure indicates that the dividends per share in the small firms are erratic while the dividends per share in the large firms are a bit stable. Generally, the dividend per share is not maintained at

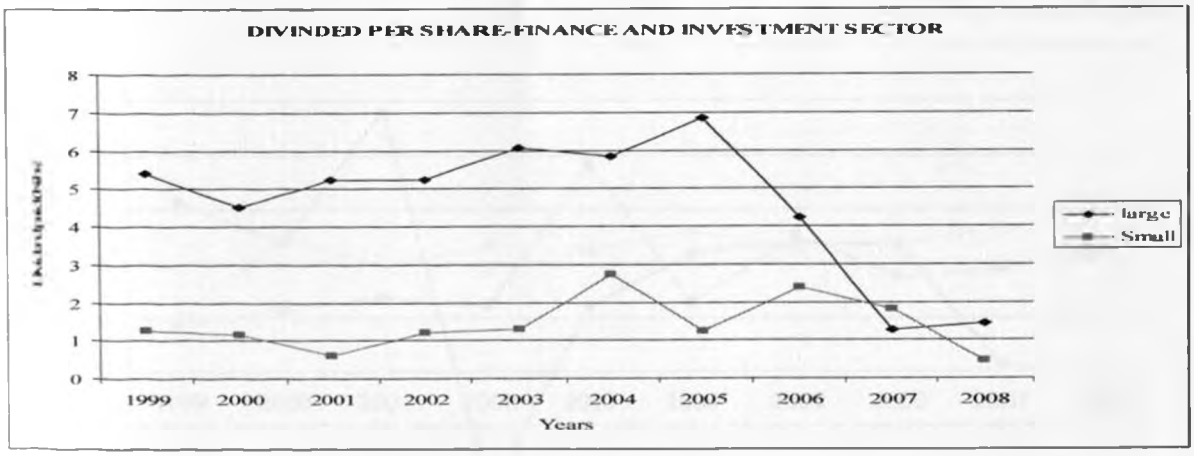
a constant amount .Apparently the large firms try to maintain a stable amount per share but they are allowed to drop when the earnings drop.

Figure 2: Dividends per share for the commercial and allied services sector



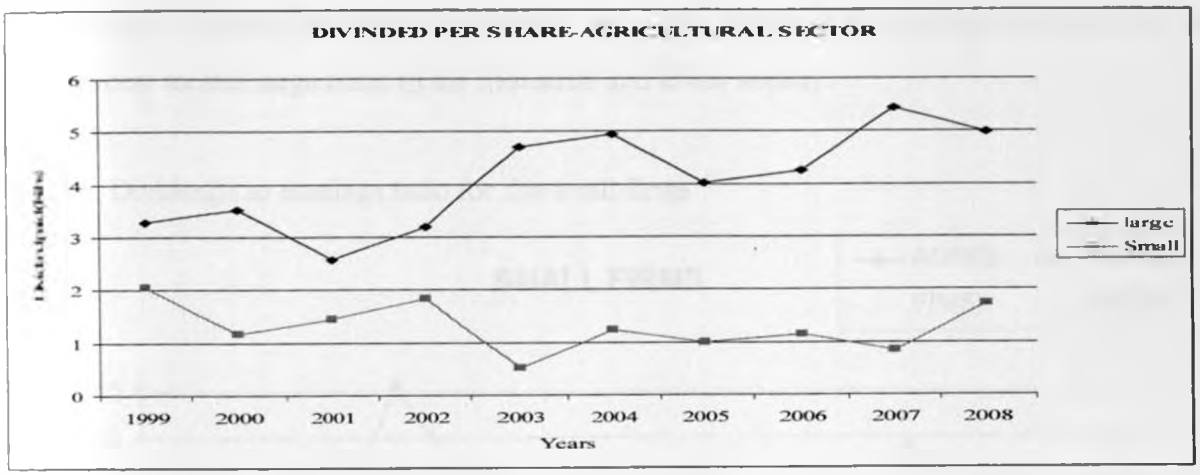
The figure indicates that the dividends per share fluctuate in the large firms while it is a bit stable in the small firms although it is allowed with a drop in the profits to drop.

Figure 3: Dividends per share for the finance and the investment sector



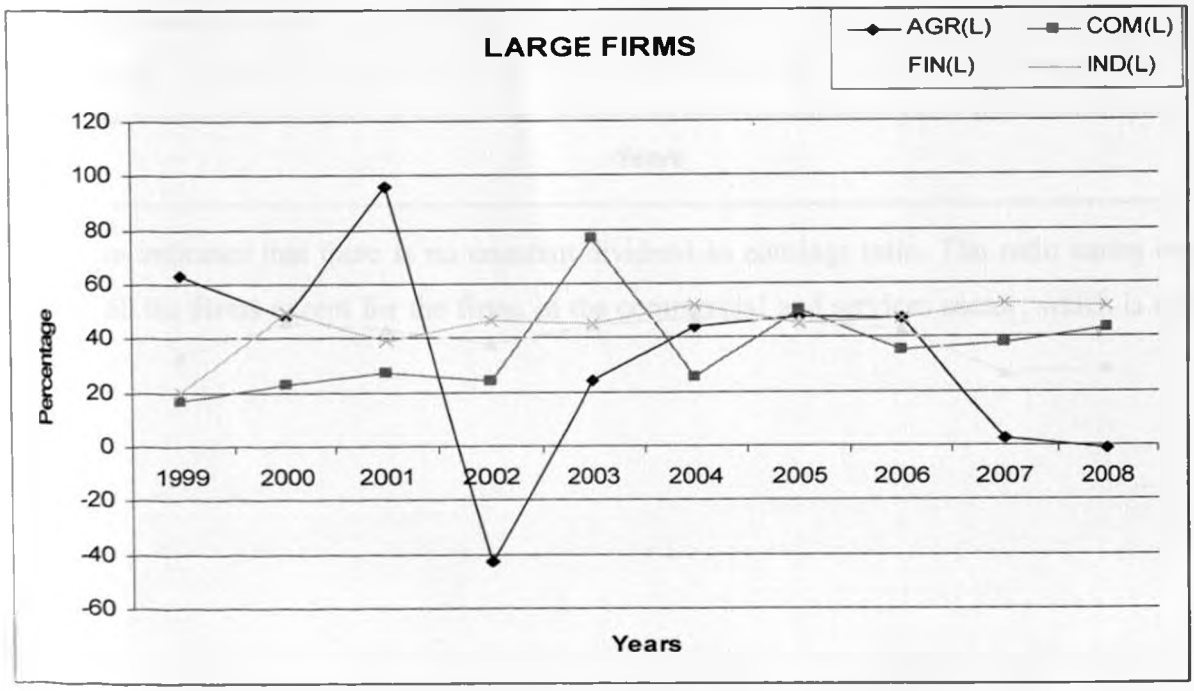
The figure indicates that the dividends per share is not maintained at a constant amount. It is more erratic in the large firms while a bit stable in the small firms although it is adjusted both upwards and downwards depending on the earnings.

Figure 4: Dividends per share for the industrial and allied sector



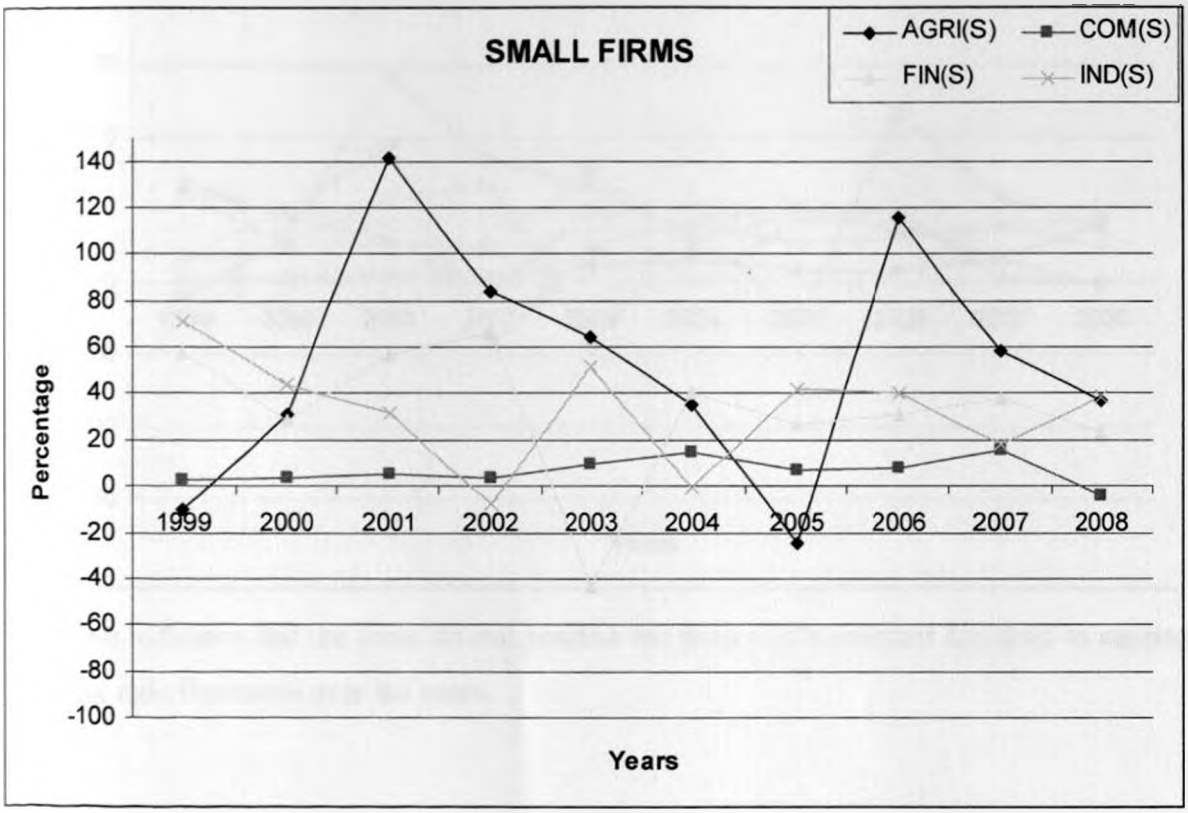
The figure indicates that the dividends per share are erratic in both the small and the big firms in the industrial and allied sector. The dividends among the small firms are a bit stable but in general, both the big and the small firms adjust their dividends depending ion the earnings of the firms.

Figure 5: Dividends to earnings ratio for the large firms



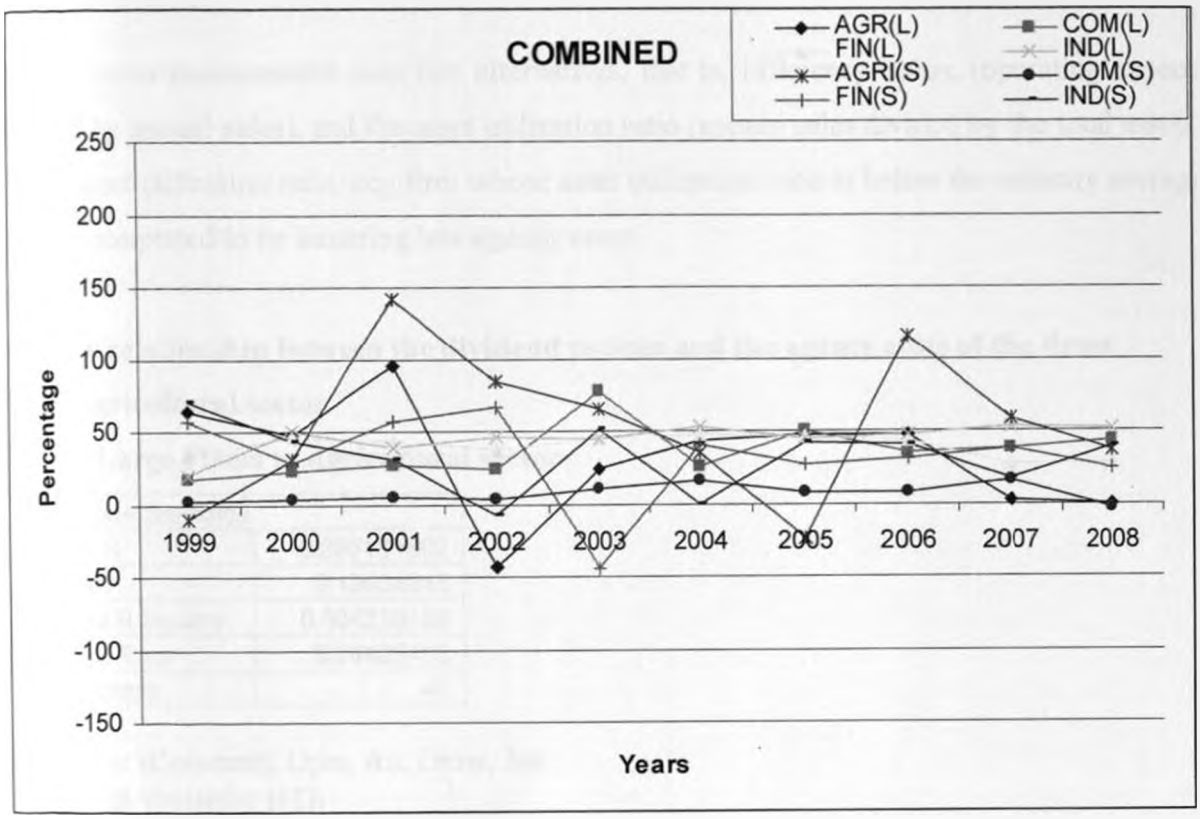
This figure indicates that the dividend to earnings ratio is not constant. The firms do not seem to be following a constant dividend to earnings ratio. The dividend to earnings ratio seem to be erratic except for the large firms in the industrial and allied sector.

Figure 6: Dividends to earnings ratio for the small firms



The figure indicates that there is no constant dividend to earnings ratio. The ratio varies over time for all the firms except for the firms in the commercial and services sector, which is a bit stable.

Figure 7: Dividends to earnings ratio for all the firms



The figure indicates that the firms do not practice the policy of a constant dividend to earnings ratio. The ratio fluctuates over the years.

4.3: The agency costs incurred by the firms listed at the MSE

Agency costs measurement uses two alternatives, that is, efficiency ratios, (operating expense divided by annual sales), and the asset utilization ratio (annual sales divided by the total assets). Using asset utilization ratio, any firm whose asset utilization ratio is below the industry average, will be interpreted to be incurring low agency costs.

4.4: The relationship between the dividend policies and the agency costs of the firms

4.4.1: Agricultural sector

4.4.1.1: Large Firms in Agricultural sector

Regression Statistics	
Multiple R	0.326101902
R Square	0.10634245
Adjusted R Square	0.004210159
Standard Error	0.98425498
Observations	40

Predictors: (Constant), Oper, Au, Grow, Ios
Dependent Variable: DTE

The coefficient of determination (R^2) equals 0.106. This shows that Oper, Au, Grow, Ios explain only 10.6 percent of the total DTE leaving 89.4 percent unexplained.

ANOVA					
	df	*SS*	*MS*	*F*	*Significance F*
Regression	4	4.035	1.009	1.04122	0.399
Residual	35	33.907	0.969		
Total	39	37.9413			

Ho: There is no linear regression relationship of DTE on Oper, Au, Grow and Ios

Ha: There is a linear regression relationship of DTE on Oper, Au, Grow and Ios

The P- value of 0.399 implies that the model of Large Firms in Agricultural sector is not significant at the 5 percent significance, that is, there is no linear regression relationship between DTE and Oper, Au, Grow, Ios

Regression coefficients

	Coefficients	*Standard Error*	*t Stat*	*P-value*
Intercept	-0.209	0.572	-0.365	0.717
GROWTH	-0.024	0.156	-0.155	0.878
OPER	0.157	0.961	0.163	0.871
AU	1.297	0.765	1.696	0.099
IOS	0.000	0.000	-0.985	0.331

The trend line simple regression model using the regression coefficient gives the equation

DTE = -0.209 + 0.157OPER + 1.297AU – 0.024GROW

Individual statistical significance (t Stat compared to 2) shows that only Oper, Au, Grow and Ios are not linearly to DTE.

4.4.1.2: Small Firms in Agricultural sector

Regression Statistics	
Multiple R	0.2222
R Square	0.0494
Adjusted R Square	-0.1027
Standard Error	0.9954
Observations	30

Predictors: (Constant), Oper, Au, Grow, Ios
Dependent Variable: DTE

The coefficient of determination (R^2) equals 0.049. This shows that Oper, Au, Grow, Ios explain only 4.9 percent of the total DTE leaving 95.1 percent unexplained.

ANOVA					
	df	*SS*	*MS*	*F*	*Significance F*
Regression	4	1.2872909	0.32182274	0.3248358	0.85862391
Residual	25	24.768108	0.99072433		
Total	29	26.055399			

Ho: There is no linear regression relationship of DTE on Oper, Au, Grow and Ios

Ha: There is a linear regression relationship of DTE on Oper, Au, Grow and Ios

The P- value of 0.859 implies that the model of small Firms in Agricultural sector is not significant at the 5 percent significance, that is, there is no linear regression relationship between DTE and Oper, Au, Grow, Ios

	Coefficients	*Standard Error*	*t Stat*	*P-value*
Intercept	0.853	0.588	1.451	0.159
GROWTH	0.279	0.579	0.482	0.634
OPER	-1.492	1.886	-0.791	0.436
AU	-0.023	0.415	-0.055	0.956
IOS	0.000	0.000	-0.337	0.739

The trend line simple regression model using the regression coefficient gives the equation

DTE = 0.853 – 1.492OPER – 0.023AU + 0.279GROW

Individual statistical significance (t Stat compared to 2) shows that only Oper, Au, Grow and Ios are not linearly to DTE.

4.4.1.3: Combined Firms in Agricultural sector

Regression Statistics	
Multiple R	0.1496
R Square	0.0224
Adjusted R Square	-0.0378
Standard Error	0.9825
Observations	70

Predictors: (Constant), Oper, Au, Grow, Ios
Dependent Variable: DTE

The coefficient of determination (R^2) equals 0.0224. This shows that Oper, Au, Grow, Ios explain only 2.24 percent of the total DTE leaving 97.76 percent unexplained.

ANOVA					
	df	*SS*	*MS*	*F*	*Significance F*
Regression	4	1.4364979	0.35912447	0.3720142	0.82775685
Residual	65	62.747855	0.96535161		
Total	69	64.184353			

Ho: There is no linear regression relationship of DTE on Oper, Au, Grow and Ios

Ha: There is a linear regression relationship of DTE on Oper, Au, Grow and Ios

The P- value of 0.827 implies that the model of combined Firms in Agricultural sector is not significant at the 5 percent significance, that is, there is no linear regression relationship between DTE and Oper, Au, Grow, Ios

	Coefficients	*Standard Error*	*t Stat*	*P-value*
Intercept	0.4518	0.3348	1.3495	0.1819
GROWTH	-0.0679	0.1450	-0.4681	0.6413
OPER	-0.5715	0.7974	-0.7167	0.4761
AU	0.2862	0.3402	0.8411	0.4034
IOS	0.0000	0.0001	-0.4215	0.6748

The trend line simple regression model using the regression coefficient gives the equation

DTE = 0.4518 – 0.5715OPER + 0.2862AU – 0.0679GROW

Individual statistical significance (t Stat compared to 2) shows that Oper, Au, Grow and Ios are not linearly to DTE.

4.4.2: Commercial sector

4.4.2.1: Large Firms in commercial sector

Regression Statistics	
Multiple R	0.495
R Square	0.245
Adjusted R Square	0.158
Standard Error	0.324
Observations	40

Predictors: (Constant), Oper, Au, Grow, Ios
Dependent Variable: DTE

The coefficient of determination (R^2) equals 0.245. This shows that Oper, Au, Grow, Ios explain 24.5 percent of the total DTE leaving 75.5 percent unexplained.

ANOVA					
	df	*SS*	*MS*	*F*	*Significance F*
Regression	4	1.190	0.298	2.836	0.039
Residual	35	3.672	0.105		
Total	39	4.863			

Ho: There is no linear regression relationship of DTE on Oper, Au, Grow and Ios

Ha: There is a linear regression relationship of DTE on Oper, Au, Grow and Ios

The P- value of 0.039 implies that the model of Large Firms in commercial sector is significant at the 5 percent significance, that is, there is a linear regression relationship between DTE and Oper, Au, Grow, Ios

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	0.682	0.180	3.786	0.001	0.316	1.047	0.316	1.047
GROWTH	0.105	0.330	0.317	0.753	-0.565	0.774	-0.565	0.774
OPER	0.159	0.344	0.464	0.646	-0.538	0.857	-0.538	0.857
AU	-0.367	0.123	-2.978	0.005	-0.617	-0.117	-0.617	-0.117
IOS	0.000	0.000	-0.061	0.951	0.000	0.000	0.000	0.000

The trend line simple regression model using the regression coefficient gives the equation

DTE = 0.682 + 0.159OPER – 0.367AU + 0.105GROW

Individual statistical significance (t Stat compared to 2) shows that only Au is linearly related to DTE, the rest (Oper Grow and Ios) are not linearly to DTE.

4.4.2.2: Small Firms in commercial sector

Regression Statistics	
Multiple R	0.452
R Square	0.205
Adjusted R Square	0.114
Standard Error	0.175
Observations	40

Predictors: (Constant), Oper, Au, Grow, Ios
Dependent Variable: DTE

The coefficient of determination (R^2) equals 0.205. This shows that Oper, Au, Grow, Ios explain 20.5 percent of the total DTE leaving 79.5 percent unexplained.

ANOVA					
	df	*SS*	*MS*	*F*	*Significance F*
Regression	4	0.274	0.069	2.251	0 083
Residual	35	1.066	0.030		
Total	39	1.340			

Ho: There is no linear regression relationship of DTE on Oper, Au, Grow and Ios

Ha: There is a linear regression relationship of DTE on Oper, Au, Grow and Ios

The P- value of 0.083 implies that the model of small Firms in commercial sector is not significant at the 5 percent significance, that is, there is no linear regression relationship between DTE and Oper, Au, Grow, Ios

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	0.341	0.111	3.076	0.004	0.116	0.565	0.116	0.565
GROWTH	0.078	0.086	0.905	0.372	-0.097	0.253	-0.097	0.253
OPER	-1.118	0.386	-2.894	0.007	-1.902	-0.334	-1.902	-0.334
AU	-0.023	0.023	-0.985	0.331	-0.069	0.024	-0.069	0.024
IOS	0.000	0.000	-0.035	0.972	0.000	0.000	0.000	0.000

The trend line simple regression model using the regression coefficient gives the equation

DTE = 0.341 – 1.118OPER – 0.023AU + 0.078GROW

Individual statistical significance (t Stat compared to 2) shows that Oper is linearly related to DTE, while the rest (Au, Grow and Ios) are not linearly to DTE.

4.4.2.3: Combined Firms in Commercial Sector

Regression Statistics	
Multiple R	0.308
R Square	0.095
Adjusted R Square	0.046
Standard Error	0.303
Observations	80

Predictors: (Constant), Oper, Au, Grow, Ios
Dependent Variable: DTE

The coefficient of determination (R^2) equals 0.095. This shows that Oper, Au, Grow, Ios explain only 9.5 percent of the total DTE leaving 90.5 percent unexplained.

ANOVA					
	df	*SS*	*MS*	*F*	*Significance F*
Regression	4	0.718	0.180	1.960	0.109
Residual	75	6.871	0.092		
Total	79	7.589			

Ho: There is no linear regression relationship of DTE on Oper, Au, Grow and Ios

Ha: There is a linear regression relationship of DTE on Oper, Au, Grow and Ios

The P- value of 0.399 implies that the model of combined Firms in commercial sector is not significant at the 5 percent significance, that is, there is no linear regression relationship between DTE and Oper, Au, Grow, Ios

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	0.231	0.093	2.477	0.016	0.045	0.416	0.045	0.416
GROWTH	0.168	0.125	1.350	0.181	-0.080	0.416	-0.080	0.416
OPER	0.196	0.199	0.985	0.328	-0.200	0.591	-0.200	0.591
AU	-0.057	0.033	-1.721	0.089	-0.123	0.009	-0.123	0.009
IOS	0.000	0.000	-0.727	0.469	0.000	0.000	0.000	0.000

The trend line simple regression model using the regression coefficient gives the equation

DTE = 0.231 + 0.196OPER – 0.057AU + 0.168GROW

Individual statistical significance (t Stat compared to 2) shows that Oper, Au, Grow and Ios are not linearly to DTE.

4.4.3: Financial Sector

4.4.3.1: Large Firms in Financial Sector

Regression Statistics	
Multiple R	0.158
R Square	0.025
Adjusted R Square	-0.086
Standard Error	0.232
Observations	40

Predictors: (Constant), Oper, Au, Grow, Ios
Dependent Variable: DTE

The coefficient of determination (R^2) equals 0.025. This shows that Oper, Au, Grow, Ios explain only 2.5 percent of the total DTE leaving 97.5 percent unexplained.

ANOVA					
	df	*SS*	*MS*	*F*	*Significance F*
Regression	4	0.048	0.012	0.225	0.923
Residual	35	1.880	0.054		
Total	39	1.928			

Ho: There is no linear regression relationship of DTE on Oper, Au, Grow and Ios

Ha: There is a linear regression relationship of DTE on Oper, Au, Grow and Ios

The P- value of 0.923 implies that the model of Large Firms in financial sector is not significant at the 5 percent significance, that is, there is no linear regression relationship between DTE and Oper, Au, Grow, Ios

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	0.319	0.170	1.877	0.069	-0.026	0.664	-0.026	0.664
GROWTH	-0.061	0.149	-0.410	0.685	-0.363	0.241	-0.363	0.241
OPER	0.017	0.035	0.476	0.637	-0.055	0.088	-0.055	0.088
AU	0.664	1.428	0.465	0.645	-2.235	3.564	-2.235	3.564
IOS	0.000	0.000	0.302	0.765	0.000	0.000	0.000	0.000

The trend line simple regression model using the regression coefficient gives the equation

DTE = 0.319 + 0.017OPER + 0.664AU - 0.061GROW

Individual statistical significance (t Stat compared to 2) shows that Oper, Au, Grow and Ios are not linearly to DTE.

4.4.3.2: Small Firms in Financial Sector

Regression Statistics	
Multiple R	0.156
R Square	0.024
Adjusted R Square	-0.087
Standard Error	29.228
Observations	40

Predictors: (Constant), Oper, Au, Grow, Ios
Dependent Variable: DTE

The coefficient of determination (R^2) equals 0.024. This shows that Oper, Au, Grow, Ios explain only 2.4 percent of the total DTE leaving only 97.6 percent unexplained.

ANOVA					
	df	*SS*	*MS*	*F*	*Significance F*
Regression	4	745.120	186.280	0.218	0.927
Residual	35	29899.223	854.264		
Total	39	30644.343			

Ho: There is no linear regression relationship of DTE on Oper, Au, Grow and Ios

Ha: There is a linear regression relationship of DTE on Oper, Au, Grow and Ios

The P- value of 0.927 implies that the model of small Firms in financial sector is not significant at the 5 percent significance, that is, there is no linear regression relationship between DTE and Oper, Au, Grow, Ios

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	-11.191	9.048	-1.237	0.224	-29.560	7.178	-29.560	7.178
GROWTH	-0.144	1.287	-0.112	0.912	-2.756	2.468	-2.756	2.468
OPER	2.910	4.956	0.587	0.561	-7.151	12.972	-7.151	12.972
AU	45.537	57.844	0.787	0.436	-71.892	162.967	-71.892	162.967
IOS	0.001	0.005	0.165	0.870	-0.010	0.012	-0.010	0.012

The trend line simple regression model using the regression coefficient gives the equation

DTE = -11.191 + 2.910OPER + 45.537AU - 0.144GROW+ 0.001IOS

Individual statistical significance (t Stat compared to 2) shows that Oper, Au, Grow and Ios are not linearly to DTE.

4.4.3.3: Combined Firms in Financial Sector

Regression Statistics	
Multiple R	0.142
R Square	0.020
Adjusted R Square	-0.032
Standard Error	20.136
Observations	80

Predictors: (Constant), Oper, Au, Grow, Ios

Dependent Variable: DTE

The coefficient of determination (R^2) equals 0.020. This shows that Oper, Au, Grow, Ios explain only 2.0 percent of the total DTE leaving 98 percent unexplained.

ANOVA					
	df	*SS*	*MS*	*F*	*Significance F*
Regression	4	627.084	156.771	0.387	0.818
Residual	75	30409.463	405.460		
Total	79	31036.547			

Ho: There is no linear regression relationship of DTE on Oper, Au, Grow and Ios

Ha: There is a linear regression relationship of DTE on Oper, Au, Grow and Ios

The P- value of 0.399 implies that the model of combined Firms in financial sector is not significant at the 5 percent significance, that is, there is no linear regression relationship between DTE and Oper, Au, Grow, Ios

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	-7.576	5.195	-1.458	0.149	-17.925	2.774	-17.925	2.774
GROWTH	-0.128	0.872	-0.147	0.883	-1.865	1.609	-1.865	1.609
OPER	1.611	1.832	0.880	0.382	-2.038	5.261	-2.038	5.261
AU	36.123	36.592	0.987	0.327	-36.772	109.018	-36.772	109.018
IOS	0.001	0.002	0.482	0.631	-0.002	0.004	-0.002	0.004

The trend line simple regression model using the regression coefficient gives the equation

DTE = -7.576 + 1.611OPER + 36.123AU - 0.128GROW + 0.001IOS

Individual statistical significance (t Stat compared to 2) shows that Oper, Au, Grow and Ios are not linearly to DTE.

4.4.4: Firms in Industrial & Allied Sector

4.4.4.1: Large Firms in Industrial & Allied Sector

Regression Statistics	
Multiple R	0.604
R Square	0.365
Adjusted R Square	0.326
Standard Error	0.362
Observations	70

Predictors: (Constant), Oper, Au, Grow, Ios
Dependent Variable: DTE

The coefficient of determination (R^2) equals 0.365. This shows that Oper, Au, Grow, Ios explain 36.5 percent of the total DTE leaving only 63.5 percent unexplained.

ANOVA					
	df	*SS*	*MS*	*F*	*Significance F*
Regression	4	4.910	1.227	9.348	0.000
Residual	65	8.535	0.131		
Total	69	13.445			

Ho: There is no linear regression relationship of DTE on Oper, Au, Grow and Ios

Ha: There is a linear regression relationship of DTE on Oper, Au, Grow and Ios

The P- value of 0.399 implies that the model of Large Firms in Industrial & Allied Sector is significant at the 5 percent significance, that is, there is a linear regression relationship between DTE and Oper, Au, Grow, Ios

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	0.327	0.130	2.523	0.014	0.068	0.586	0.068	0.586
GROW	0.312	0.155	2.009	0.049	0.002	0.623	0.002	0.623
OPER	-0.329	0.154	-2.135	0.036	-0.637	-0.021	-0.637	-0.021
AU	0.087	0.056	1.544	0.127	-0.025	0.199	-0.025	0.199
IOS	0.000	0.000	3.904	0.000	0.000	0.000	0.000	0.000

The trend line simple regression model using the regression coefficient gives the equation

DTE = 0.327 – 0.329OPER + 0.087AU + 0.312GROW

Individual statistical significance (t Stat compared to 2) shows that Oper, Grow and Ios are linearly related to DTE. only Au is not linearly to DTE.

4.4.4.2: Small Firms in Industrial & Allied Sector

Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
				R Square Change	F Change	df1	df2	Sig. F Change
.330(a)	.109	.053	.65079	.109	1.950	4	64	.11

Predictors: (Constant), IOS, GROW, OP, AU

The coefficient of determination (R^2) equals 0.109. This shows that Oper, Au, Grow, Ios explain only 10.9 percent of the total DTE leaving 89.1 percent unexplained.

ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Regression	3.304	4	.826	1.950	.113(a)
Residual	27.106	64	.424		
Total	30.410	68			

Predictors: (Constant), IOS, GROW, OP, AU
Dependent Variable: DTE

Ho: There is no linear regression relationship of DTE on Oper, Au, Grow and Ios

Ha: There is a linear regression relationship of DTE on Oper, Au, Grow and Ios

The P- value of 0.113 implies that the model of small Firms in Industrial & Allied Sector is not significant at the 5 percent significance, that is, there is no linear regression relationship between DTE and Oper, Au, Grow, Ios

Coefficients

	B	Std. Error	Beta	t	Sig.
(Constant)	-.134	.263		-.509	.613
GROW	.021	.034	.097	.629	.531
OP	1.385	.707	.261	1.958	.055
AU	.069	.089	.134	.777	.440
IOS	9.459E-05	.000	.247	2.004	.049

Dependent Variable: DTE

The trend line simple regression model using the regression coefficient gives the equation

DTE = -0.134 + 1.385OPER + 0.069AU + 0.021GROW + 0.00009IOS

Individual statistical significance (t Stat compared to 2) shows that only IOS is linearly related to DTE, the rest (Oper, Au, Grow) are not linearly to DTE.

4.4.4.3: Combined Firms in Industrial & Allied Sector

Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
				R Square Change	F Change	df1	df2	Sig. F Change
.318	.101	.074	.54300	.101	3.776	4	134	.006

Predictors: (Constant), IOS, GROW, OP, AU

The coefficient of determination (R^2) equals 0.101. This shows that Oper, Au, Grow, Ios explain only 10.1 percent of the total DTE leaving 89.9 percent unexplained.

ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	4.453	4	1.113	3.776	.006
Residual	39.509	134	.295		
Total	43.962	138			

Predictors: (Constant), IOS, GROW, OP, AU
Dependent Variable: DTE

Ho: There is no linear regression relationship of DTE on Oper, Au, Grow and Ios

Ha: There is a linear regression relationship of DTE on Oper, Au, Grow and Ios

The P- value of 0.006 implies that the model of small Firms in Industrial & Allied Sector is significant at the 5 percent significance, that is, there is a linear regression relationship between DTE and Oper, Au, Grow, Ios

Coefficients

	B	Std. Error	Beta	t	Sig
(Constant)	.267	.128		2.081	.039
GROW	.013	.025	.049	.509	.612
OP	-.116	.195	-.053	-.593	.554
AU	.056	.054	.109	1.032	.304
IOS	9.643E-05	.000	.284	3.373	.001

a Dependent Variable: DTE

The trend line simple regression model using the regression coefficient gives the equation

DTE = 0.267 – 0.116OPER + 0.056AU + 0.013GROW + 0.000096IOS

Individual statistical significance (t Stat compared to 2) shows that only IOS is linearly related to DTE, the rest (Oper, Au, Grow) are not linearly to DTE.

4.5 Summary of Findings and Interpretation

From the analysis of the data, it can be concluded that the dividends per share for the small firms is more stable for the commercial and allied, finance and investment, and the commercial and allied sectors but a bit erratic for the agricultural sector. The dividends per share is erratic for the large firms in the commercial and allied, finance and investment and the industrial and allied sectors but stable in the agricultural sector. In all the sectors, both the small and large firms reduce the dividends per share when their earnings fall. The dividend to earnings ratio is erratic for both the large and small firms in all the sectors except for the small firms in the commercial and services sector and the large firms in the industrial and allied sector. The firms in all the sectors also do not seem to pay any constant amount plus an extra. This can be interpreted that firms the listed at the NSE do not follow a strict dividend policy.

Based on the asset utilization ratio the small firms in the agricultural sector seems to be incurring lower agency costs than the large firms in the commercial and allied sector, the large firms in the financial services sector incur lower agency costs than the small firms. The large firms in the industrial and allied sector incur lower agency costs than the small firms.

Individual statistical significance (t Stat) shows that the operating ratio, asset utilization ratio .annual growth ratios and the investment opportunity sets are not linearly related to the dividend to earnings ratio. . The agency costs only explain a small portion of the dividend policies. This can be interpreted that the dividend policies of the firms in the various sectors do not seem to be designed to mitigate the agency costs.

CHAPTER FIVE

CONCLUSIONS AND RECCOMENDATIONS

5.0 Summary and Conclusions and Recommendations

5.1 Introduction

This chapter gives a summary of the conclusions and the findings of the study and gives the suggestions of the areas of further research.

5.2 Conclusions and Recommendations

The studies main objectives were to establish the dividend policies practiced by the forms listed at the NSE establish the agency costs of the firms and establish the relationship between the dividend policies of the firms and their agency costs. Trend analysis was used to establish the dividend policies, measure of central tendency used to measure the agency costs and multiple regression analysis used to establish the relationship between the dividend policies and the agency costs.

It is apparent that the firms listed at the NSE do not follow any definite and consistent dividend policy. The firms in all the sectors try to maintain dividends per share at constant amounts but at the same time, they do not shy away from reducing them when their earnings fall. The policy of paying a constant proportion of the profits as dividends also is not in use. The policy only seems to be in use for the large firms in the industrial and allied sector and the commercial and services sector although the proportions are not constant throughout. They also do not hesitate to reduce the proportion of the profits to be disbursed as dividends the profits reduce.

The small firms in the agricultural sector seem to be incurring higher agency costs than the large firms . the same trend seems to have been repeated in the commercial and services and the

industrial and services sectors .It is only in the financial services sector where the agency costs of incurred by the large firms was found to be higher.

In the agricultural sector, only a small portion of the dividend policy is dependent on the agency costs. This proportion is not significant and therefore it can be concluded that the firms in the agricultural sector do not use dividends to mitigate the agency their agency costs.

In the industrial and allied sector, the large firms seem to be using the agency costs to mitigate the agency costs .All the measures are linearly related to the dividend to earnings ratio except for the asset utilization ratio. This however is not the case with the small firms in the same sector.

In the commercial services sector, there is a linear relationship between the dividend to earnings ratio and the agency costs. The agency costs explain 75% of the dividend policy. Asset utilization ratio is linearly related to the dividend policy. In the small firms, only the operating ratio is linearly related to the dividend to earnings ratio. In general, only 79% of the dividends policy is explained by the agency costs.

In the financial services sector, the agency costs explain 2.5% of the dividend policy laving 97.5% unexplained among the large firms. There is no linear relationship between the dividend policy and the agency costs among the large firms in this sector. In the small firms in this sector, agency costs explain only 2.4% of the dividend policy leaving 97.6% un explained. There is also no linear relationship between the dividend policy and the agency cots. This means that firms in this sector do not use the dividend policy to mitigate the agency costs.

5.3 Suggestions for Further Research

Further research is recommended in this area in Kenya to establish the factors considered by the firms or the directors in determining the dividends to be declared and to establish the nature of the investors at the stock exchange and the factors that they consider when they are building their portfolios or choosing their investments. The research findings here contradict the generally held view that firms use the dividend policy to mitigate agency costs in other countries, this needs to be investigated further to establish whether the firms are doing this intentionally and what they use to mitigate the agency costs . Further research should also be carried out to establish whether the issue of agency costs is considered at all by the investors or the firms in Kenya.

5.4 Limitations

The study was limited in the following areas

a) A number of the large firms whose share are currently dominating trade at the NSE had not been listed and it is important to include them in a study such as this one.

b) The study took into account a short period period. A study spanning a longer period for example twenty-five years should be undertaken.

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APPENDICES

APPENDIX 1

NSE EQUITIES

A) Agricultural

1. Unilever Tea Ltd.
2. Kakuzi Ltd.
3. Rea Vipingo Ltd.
4. Sasini Ltd.
5. Eaagads Ltd.
6. Williamson Tea Ltd.
7. Kapchorua Ltd.
8. Limuru Tea Ltd.

B) Commercial and Services

1. Access Kenya Group Ltd.
2. Car and General Ltd.
3. Cooper Motor Cooperation Ltd.
4. Hutchings Biemer Ltd.
5. Kenya Airways Ltd.
6. Marshalls Ltd.
7. Nation Media Group Ltd.
8. Safaricom Ltd.
9. Scangroup Ltd.
10. Standard Group Ltd.
11. TPS Eastern Africa (Serena) Ltd.
12. Uchumi Supermarkets Ltd.
13. Express Ltd

C) Finance and Investment

1. Barclays Bank Ltd.
2. CFC Stanbic Ltd.
3. Diamond Trust.
4. Equity Bank Ltd.
5. Housing Finance Company Ltd.
6. Centum Investments Ltd.
7. Jubilee Holdings Ltd.
8. Kenya Commercial Bank Ltd.
9. Kenya Re-Insurance Co Ltd.
10. National Bank Ltd.
11. National Industrial Credit Ltd.
12. Pan African Insurance Ltd.
13. Standard Chartered Bank Ltd.
14. City Trust Ltd.

D) Industrial and Allied

1. Athi River Mining Ltd.
2. BOC (K) Ltd
3. Bamburi Cement Ltd.
4. British American Tobacco Ltd.
5. Carbacid Ltd.
6. Crown Berger Ltd.
7. East African Cables Ltd
8. East African Portland Cement ltd.
9. East African Breweries Ltd.
10. Eveready East Africa Ltd.
11. Kenya Oil Ltd.

12. Kenya Power & Lighting Ltd.
13. Kengen Ltd.
14. Mumias Sugar Company Ltd.
15. Olympia Capital Holdings Ltd.
16. Sameer Africa Ltd
17. Total Ltd.
18. Unga Ltd.
19. Bauman Ltd.
20. Kenya Orchards Ltd.

Source: NSE

APPENDIX 2

List of stock brokerage firms

Drummond Investment Bank Ltd

Suntra Investment Bank Ltd

BobMathews Stockbrokers Ltd

Sterling Investment Bank Ltd

NIC Capital Securities Ltd

African Alliance Kenya Securities

Dyer & Blair Investment Bank Ltd

Reliable Securities Ltd

Afrika Investment Bank Ltd

Apex Africa Investment Bank Ltd

Standard Investment Bank Ltd

Renaissance Capital (Kenya) Ltd

Ngenye Kariuki & Co Ltd

CFC Stanbic Financial Services

ABC Capital Ltd

Faida Investment Bank LTD

Kestrel Capital (EA) Ltd

Genghis Capital Ltd

Discount Securities Ltd *

Nyaga Stockbrokers Ltd *

Francis Thuo & Partners Ltd *

*Under statutory management

Source NSE.

APPENDIX 3

Asset Utilization Ratios

	ASSET UTILIZATION = ANNUAL SALES/TOTAL ASSETS									
FIRMS	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
large										
Unilever Tea Ltd	0.512	0.625	0.709	0.683	0.826	0.898	0.922	0.799	0.872	0.890
Williamson Tea Ltd	0.418	0.453	0.493	0.424	0.262	0.264	0.360	0.312	0.596	0.537
Kakuzi Limited	0.333	0.366	0.422	0.383	0.666	0.664	0.538	0.609	0.637	0.609
Sasini tea and coffee limited	0.312	0.399	0.354	0.382	0.291	0.033	0.243	1.024	0.346	0.209
INDUSTRY AVERAGE	**0.394**	**0.461**	**0.494**	**0.468**	**0.511**	**0.465**	**0.516**	**0.686**	**0.613**	**0.561**
small										
Rea Vipingo	0.589	0.701	0.702	0.921	0.826	0.849	1.057	1.107	2.163	1.384
Limuru Tea Ltd	1.131	1.147	1.000	1.025	0.838	0.819	0.649	0.834	1.122	1.203
Eaagads Ltd	0.255	0.305	0.322	0.405	0.280	0.370	0.052	0.301	0.235	0.257
INDUSTRY AVERAGE	**0.658**	**0.718**	**0.675**	**0.784**	**0.648**	**0.679**	**0.586**	**0.748**	**1.173**	**0.948**
large										
Kenya Airways Ltd	0.737	0.793	0.968	1.135	1.175	1.034	0.942	0.762	0.749	0.773
Nation Media Group Ltd	0.913	1.035	1.242	1.136	1.132	1.202	1.264	1.198	1.303	1.247
TPS Eastern Africa (Serena)Ltd	0.758	0.745	0.735	0.683	0.612	0.814	0.609	0.532	0.541	0.498
Standard Group Ltd	1.939	2.029	1.808	1.794	2.161	1.807	2.025	2.296	1.561	1.312
INDUSTRY AVERAGE	**1.087**	**1.151**	**1.188**	**1.187**	**1.270**	**1.214**	**1.210**	**1.197**	**1.038**	**0.957**
small										
Marshalls (E.A) Ltd	1.220	1.216	1.184	1.180	1.702	1.301	1.276	1.203	1.028	1.031
Cooper Motor Cooperation Ltd	0.844	0.844	2.562	1.021	0.864	2.930	0.966	0.942	4.012	5.209
Express Kenya Ltd	3.693	3.676	4.374	4.700	4.889	2.890	1.713	0.918	0.626	0.378
Car and General Ltd	0.654	1.120	1.120	0.755	0.872	0.848	0.915	0.870	1.678	2.372
INDUSTRY AVERAGE	**1.603**	**1.714**	**2.310**	**1.914**	**2.082**	**1.992**	**1.217**	**0.983**	**1.836**	**2.247**
large										

Barclays Bank Ltd	0.094	0.100	0.092	0.074	0.008	0.068	0.080	0.089	0.086	0.106
Kenya Commercial Bank Ltd	0.080	0.067	0.046	0.069	0.057	0.055	0.065	0.068	0.078	0.077
Standard Chartered Bank Ltd	0.078	0.075	0.074	0.066	0.060	0.055	0.063	0.063	0.077	0.075
CFC Bank Ltd	0.195	0.187	0.111	0.081	0.067	0.049	0.073	0.075	0.108	0.064
INDUSTRY AVERAGE	**0.112**	**0.107**	**0.081**	**0.072**	**0.048**	**0.057**	**0.070**	**0.074**	**0.087**	**0.081**
small										
Centum Investment Ltd	0.056	0.054	0.052	0.060	0.076	0.109	0.064	0.084	0.100	0.074
Pan African Insurance Ltd	0.026	0.013	0.026	0.011	0.256	0.273	0.279	0.263	0.313	0.380
City Trust Ltd	0.071	0.061	0.042	0.044	0.043	0.004	0.068	0.098	0.174	0.193
Diamond Trust Bank Ltd	0.147	0.150	0.120	0.052	0.066	0.064	0.086	0.089	0.102	0.113
INDUSTRY AVERAGE	**0.075**	**0.069**	**0.060**	**0.042**	**0.110**	**0.112**	**0.124**	**0.133**	**0.172**	**0.190**
large										
Kenya Power & Lighting Ltd	0.851	0.924	0.978	0.791	0.770	0.739	0.810	0.903	0.846	0.846
Bamburi Portland Cement Ltd	0.492	0.545	0.589	0.667	0.953	1.113	0.801	1.048	1.254	1.351
Kengen Ltd	0.351	0.316	0.245	0.163	0.144	0.119	1.080	1.225	0.143	0.150
East African Breweries Ltd	1.723	1.817	1.485	1.831	1.672	1.448	0.848	0.844	0.832	0.977
British American Tobacco Ltd	1.546	1.522	1.560	1.492	1.486	1.611	1.803	1.629	2.753	2.950
Total Kenya Ltd	2.616	2.299	2.514	2.667	2.849	3.567	3.764	2.478	3.525	3.773
Mumias Sugar Company Ltd	0.693	1.203	0.652	0.824	0.846	1.071	1.061	0.982	0.871	0.846
INDUSTRY AVERAGE	**1.182**	**1.232**	**1.146**	**1.205**	**1.246**	**1.381**	**1.452**	**1.301**	**1.461**	**1.556**
small										
Olympia Capital Holdings Ltd	0.584	0.444	0.484	1.166	1.033	0.939	1.005	0.498	0.496	1.255

Unga Group Ltd	3.189	1.780	1.882	1.780	1.577	1.482	1.952	2.035	2.065	1.985
Athi River Mining Ltd	0.553	0.701	0.701	0.796	0.787	0.809	0.682	0.612	0.896	0.502
Crown Berger Ltd	2.196	1.105	1.082	1.249	1.247	1.114	1.146	1.101	1.260	1.138
East African Cables Ltd	0.831	1.107	1.084	1.182	1.204	1.676	1.104	1.070	1.079	1.291
East African Portland Cement Ltd	0.373	0.361	0.422	0.433	0.514	0.558	0.695	0.683	0.716	0.794
Kenya Oil Ltd	2.265	3.174	3.081	3.034	3.631	5.530	4.477	3.474	0.523	8.028
INDUSTRY AVERAGE	**1.427**	**1.239**	**1.248**	**1.377**	**1.428**	**1.730**	**1.580**	**1.353**	**1.005**	**2.142**

APPEPNDIX 4

Dividends per year										
small										
Rea Vipingo	533,289	595,677	598,477	665,830	720,210	873,408	1,104,363	1,181,207	1,232,980	1,356,427
Limuru Tea Ltd	51,212	56,292	45,429	47,654	57,491	56,277	37,203	51,036	54,362	69,528
Eaagads Ltd	54,861	61,154	64,378	82,037	48,852	67,465	9,762	68,081	51,050	71,259
COMMERCIAL & SERVICES										
large										
Kenya Airways Ltd	12,834,000	17,840,000	22,525,000	25,165,000	27,461,000	30,421,000	42,234,000	52,804,000	58,792,000	60,471,000
Nation Media Group Ltd	2,450,500	3,022,600	3,538,800	4,103,400	4,469,100	4,866,200	5,597,100	6,339,200	7,685,600	8,251,500
TPS Eastern Africa (Serena)Ltd	1,187,792	1,404,798	1,473,952	1,450,158	1,217,130	1,672,490	3,059,477	3,264,006	3,667,660	3,243,203
Standard Group Ltd	1,112,489	1,119,236	1,149,858	1,321,611	1,543,985	1,762,993	1,987,670	2,964,610	2,608,218	2,818,860
small										
Marshalls (E.A) Ltd	1,719,012	1,506,952	1,485,722	1,424,543	1,652,221	1,273,874	1,261,640	1,304,988	1,291,845	1,356,545
Cooper Motor Cooperation Ltd	4,282,082	4,112,378	4,224,218	4,552,390	4,493,092	6,048,231	6,810,705	7,362,964	8,976,421	11,481,773
Express Kenya Ltd	3,221,241	3,172,049	3,595,292	3,984,859	3,964,581	1,762,203	1,055,414	822,487	515,993	498,891
Car and General Ltd	420,973			436,741	489,308	629,100	1,061,742	1,244,403	1,846,523	2,997,342
FINANCE & INVESTMENT										
large										
Barclays Bank Ltd	6,502,000	7,071,000	6,771,000	6,389,000	763,000	7,181,000	8,388,000	10,428,000	13,634,000	17,821,000
Kenya Commercial Bank Ltd	5,368,053	4,442,958	2,967,890	4,097,002	3,450,592	3,831,299	5,127,810	6,313,472	9,373,389	14,745,585
Standard Chartered Bank Ltd	3,435,831	3,700,710	4,005,317	4,092,422	3,834,480	3,676,033	4,577,513	5,129,338	6,977,075	7,445,466

CFC Bank Ltd	1,484,773	1,853,145	1,153,167	953,860	1,103,918	1,450,494	2,401,525	3,025,201	4,680,309	7,134,603
small										
Centum Investment Ltd	136,760	120,077	124,375	152,322	221,028	354,570	239,786	403,742	804,888	581,514
Pan African Insurance Ltd	78,182	48,771	70,394	30,718	701,475	914,606	1,031,417	1,248,195	1,834,000	2,318,000
City Trust Ltd	15,592	12,838	12,220	9,145	9,060	801	2,679	19,779	38,421	45,321
Diamond Trust Bank Ltd	883,944	772,952	659,736	324,010	569,077	712,265	1,413,240	1,928,904	3,085,485	4,695,985
INDUSTRIAL & ALLIED										
large										
Kenya Power & Lighting Ltd	18,422,731	23,564,466	28,188,525	24,807,649	24,176,283	23,865,914	29,012,882	34,955,411		
Bamburi Portland Cement Ltd	6,767,000	7,710,000	8,894,000	10,073,000	14,393,000	16,488,000	12,284,000	19,400,000	22,111,000	27,467,000
Kengen Ltd	7,407,949	15,574,463	13,488,013	10,252,108	9,934,542	8,754,447	11,011,577	14,300,060	14,551,767	16,091,563
East African Breweries Ltd	25,248,788	25,448,122	26,813,674	27,734,679	28,918,151	30,076,665	19,186,425	20,906,885	25,870,696	32,488,112
British American Tobacco Ltd	11,037,539	10,895,622	10,363,992	9,422,530	9,446,056	9,865,047	11,263,628	12,669,489	15,770,234	17,435,970
Total Kenya Ltd	14,715,766	23,157,136	17,925,997	16,291,258	22,393,229	37,628,109	40,547,536	38,052,875	44,109,728	54,807,521
Mumias Sugar Company Ltd	6,407,988	9,905,072	6,659,315	7,847,233	7,628,937	9,792,503	10,080,174	11,657,540	10,381,190	11,970,101
small										
Olympia Capital Holdings Ltd	83,539	67,852	67,919	263,232	274,450	291,887	291,225	396,760	396,760	1,366,927
Unga Group Ltd	6,903,494	6,829,041	7,142,432	5,500,307	5,702,613	6,305,387	7,558,509	7,305,958	7,675,347	9,450,824
Athi Rivr Mining Ltd	682,738	890,415	883,740	1,126,385	1,240,388	1,638,508	2,208,724	2,605,032	3,881,736	4,619,473
Crown Berger Ltd	1,181,971	1,029,549	1,015,704	1,090,626	1,157,585	1,225,506	1,442,439	1,689,630	2,089,988	2,389,520
East African Cables Ltd	370,219	399,255	358,161	388,008	428,430	825,316	1,162,041	2,040,533	3,462,139	3,929,312
East African Portland Cement Ltd	2,349,922	2,918,148	3,169,645	3,207,060	3,842,138	4,166,289	5,363,196	6,180,715	6,402,736	7,204,479
Kenya Oil Ltd	4,097,363	6,565,948	10,959,240	13,317,933	16,658,516	34,478,830	37,536,818	46,381,292	5,160,197	134,518,341

APPEPNDIX 5

Total Sales Per Year

COMPANY	1,999	2,000	2,001	2,002	2,003	2,004	2,005	2,006	2,007	2,00
	Shs.000	Shs.000	Shs.000	Shs.000	Shs.000	Shs.000	Shs.000	Shs.000		
AGRICULTURAL										
large										
Unilever Tea Ltd	986,305	1,143,029	1,129,877	1,120,544	885,787	1,086,421	556,930	610,729	650,557	680,43
Williamson Tea Ltd	189,220	176,194	206,332	228,181	247,473	220,090	191,043	197,176	113,527	151,76
Kakuzi Limited	101,059	112,459	104,072	122,281	260,116	324,547	241,263	293,996	307,204	381,99
sasini tea and coffee limited	238,438	234,108	247,556	258,517	253,823	214,121	241,316	246,544	322,287	407,70
small										
Rea Vipingo	192,051	221,058	186,599	215,515	216,381	246,700	295,713	321,165	343,787	394,16
Limuru Tea Ltd	8,315	7,560	7,044	5,911	4,160	4,159	2,806	3,959	5,258	4,78
Eaagads Ltd	4,286	4,571	8,793	8,219	9,603	7,035	5,085	15,225	9,821	14,81
COMMERCIAL & SERVICES										
large										
Kenya Airways Ltd	3,401,000	3,474,000	4,048,000	5,436,000	5,985,000	6,306,000	6,580,000	9,496,000	41,335,000	43,924,00
Nation Media Group Ltd	1,738,700	1,296,500	2,179,300	2,564,800	2,734,400	2,856,000	3,312,600	3,847,200	4,592,200	4,156,50
TPS Eastern Africa (Serena)Ltd	333,742	419,167	428,980	470,718	451,032	565,391	1,250,564	1,264,098	1,414,138	1,339,58
Standard Group Ltd	670,651	509,631	730,009	778,634	848,657	892,036	1,030,474	1,597,028	1,326,672	1,422,15
small										
Marshalls (E.A) Ltd	562,967	427,259	476,343	324,691	364,072	322,595	311,359	307,899	309,953	342,66
Cooper Motor Cooperation Ltd	755,969	759,879	802,900	855,589	781,575	953,572	1,037,042	1,016,105	1,433,914	1,532,30
Express Kenya Ltd	452,248	474,139	464,894	450,914	418,601	188,505	159,684	168,318	177,250	212,79
Car and General Ltd	26,498			131,249	136,051	156,736	205,107	229,629	309,833	412,31
FINANCE & INVESTMENT										

large										
Barclays Bank Ltd	6,998,000	6,648,000	5,990,000	7,341,000	7,359,000	6,471,000	7,519,000	7,767,000	11,095,000	14,329,000
Kenya Commercial Bank Ltd	*10,103,266*	*11,538,501*	*8,397,355*	10,486,611	6,490,654	7,222,700	7,478,825	8,580,449	9,160,621	12,006,170
Standard Chartered Bank Ltd	2,851,002	2,833,224	3,075,689	3,343,157	3,314,397	3,442,115	3,423,022	3,707,585	4,433,192	5,024,907
CFC Bank Ltd	1,186,579	1,492,523	1,152,573	1,270,289	1,779,197	2,602,180	4,863,478	6,676,998	3,009,287	4,725,666
small										
Centum Investment Ltd	25,424	41,387	73,398	63,742	80,434	80,303	80 165	119,207	89,605	102,941
Pan African Insurance Ltd	28,376	113,758	77,914	190,124	222,079	217,920	378 230	414,943	440,376	473,434
City Trust Ltd	4,270	4,085	2,350	1,862	1,606	685	1,150	1,958	2,021	2,231
Diamond Trust Bank Ltd	356,267	354,058	322,665	338,720	402,344	542,038	678,547	770,055	1,211,754	1,851,463
INDUSTRIAL & ALLIED										
large										
Kenya Power & Lighting Ltd	13,372,169	19,439,372	31,734,618	26,344,251	26,904,721	23,009,887	27,171,579	32,749,667		
Bamburi Portland Cement Ltd	833,000	1,121,000	1,366,000	1,473,000	1,405,000	1,507,000	1,797,000	2,053,000	2,165,000	2,491,000
Kengen Ltd	6,448,222	10,628,429	11,241,277	6,743,154	5,788,229	5,959,183	8,516,879	11,564,881	11,409,594	12,557,479
East African Breweries Ltd	5,409,764	5,918,468	6,289,231	5,743,854	5,384,266	5,710,531	5,879,727	5,469,847	4,538,492	5,997,915
British American Tobacco Ltd	3,510,977	4,060,745	4,228,242	3,955,060	3,575,113	3,710,551	4,583,649	5,859,894	7,670,148	7,858,216
Total Kenya Ltd	1,166,854	1,252,854	1,228,148	1,357,373	1,366,765	1,430,675	1,354,940	1,200,930	1,243,279	1,271,094
Mumias Sugar Company Ltd	1,269,281	1,865,086	1,355,595	1,714,013	1,507,244	1,819,200	2,090,000	2,068,000	1,812,088	2,778,011
small										
Olympia Capital Holdings Ltd	40,851	28,176	34,705	98,590	61,650	70,780	77,709	122,456	224,561	299,221
Unga Group Ltd	340,798	1,067,014	821,919	768,618	840,811	697,222	697,305	635,811	424,392	549,748
Athi River Mining Ltd	165,641	195,259	209,035	249,613	255,500	358,980	437,576	510,766	813,833	985,068
Crown Berger Ltd	336,937	257,912	281,474	313,371	353,207	348,550	370,060	486,480	642,000	754,072
East African Cables Ltd	126,852	119,898	116,573	139,711	135,672	134,542	154,732	309,521	478,122	680,532
East African Portland Cement Ltd	321,061	400,966	503,370	553,389	864,439	906,520	780,524	1,189,416	1,235,445	1,411,461
Kenya Oil Ltd	225,991	432,823	856,408	913,253	10,700,651	1,179,716	1,216,257	1,328,526	1,554,001	4,165,216

APPENDIX 6

Total Share Issued

COMPANY/SECTOR	1,999	2,000	2,001	2,002	2,003	2,004	2,005	2,006	2,007	2,008
AGRICULTURAL										
large										
Unilever Tea Ltd	48,875	48,875	48,875	48,875	48,875	48,875	48,875	48,875	48,875	48,875
Williamson Tea Ltd	43,782	43,782	43,782	43,782	43,782	43,782	43,782	43,782	8,756,320	8,756,320
Kakuzi Limited	19,600,000	19,600,000	19,600,000	19,600,000	19,600,000	19,600,000	19,600,000	19,600,000	19,600,000	19,600,000
sasini tea and coffee limited	38,009,250	38,009,250	38,009,250	38,009,250	38,009,250	38,009,250	38,009,250	38,009,250	38,009,250	228,055,500
small										
Rea Vipingo	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000
Limuru Tea Ltd	200,000	200,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000
Eaagads Ltd	8,039,000	8,039,000	8,039,000	8,039,000	8,039,000	8,039,000	8,039,000	8,039,000	8,039,000	8,039,000
COMMERCIAL & SERVICES										
large										
Kenya Airways Ltd	461,615,484	461,615,484	461,615,484	461,615,484	461,615,484	461,615,484	461,615,484	461,615,483	461,615,483	461,615,483
Nation Media Group Ltd	35,700,000	35,700,000	53,500,000	53,500,000	53,500,000	53,500,000	71,300,000	71,300,000	71,300,000	71,300,000
TPS Eastern Africa (Serena)Ltd	38,679,000	38,679,000	38,679,000	38,679,000	38,679,000	38,679,000	77,682,000	88,221,000	105,865,000	105,865,000
Standard Group Ltd	12,811,859	12,811,859	12,811,859	12,811,859	12,811,859	65,133,359	65,133,359	65,133,359	73,275,029	73,275,029
small										
Marshalls (E.A) Ltd	14,393,106	14,393,106	14,393,106	14,393,106	14,393,106	14,393,106	14,393,106	14,393,106	14,393,106	14,393,106
Cooper Motor Cooperation Ltd	24,279,560	24,279,560	24,279,560	24,279,560	24,279,560	48,559,120	48,559,120	48,559,120	48,559,120	582,709,440
Express Kenya Ltd	4,800,000	4,800,000	4,800,000	4,800,000	35,404,000	35,404,000	35,404,000	35,404,000	35,404,000	35,404,000
Car and General Ltd	22,279,616	22,279,616	22,279,616	22,279,616	22,279,616	22,279,616	22,279,616	22,279,616	22,279,616	22,279,616
FINANCE & INVESTMENT										
large										

Barclays Bank Ltd	185,000,000	185,000,000	185,000,000	185,000,000	203,700,000	203,700,000	203,700,000	203,700,000	203,700,000	203,700,000
Kenya Commercial Bank Ltd	112,200,000	112,200,000	199,600,000	149,600,000	199,600,000	199,600,000	199,600,000	199,600,000	199,600,000	2,217,778
Standard Chartered Bank Ltd	164,828,976	247,243,464	247,243,464	247,243,464	247,243,464	271,967,811	271,967,811	271,967,811	271,967,811	271,967,811
CFC Bank Ltd	100,000,000	120,000,000	120,000,000	120,000,000	120,000,000	144,000,000	156,000,000	156,000,000	273,684,211	273,684,211
small										
Centum Investment Ltd	37,677,905	38,363,938	54,980,016	54,980,016	54,995,183	54,995,183	54,995,183	54,995,183	549,951,830	549,951,830
Pan African Insurance Ltd	48,000,000	48,000,000	48,000,000	48,000,000	48,000,000	48,000,000	48,000,000	48,000,000	48,000,000	48,000,000
City Trust Ltd	4,166,046	4,166,046	4,166,046	4,166,046	3,750,000	3,750,000	3,750,000	3,750,000	4,166,046	4,166,046
Diamond Trust Bank Ltd	79,500,000	79,500,000	79,500,000	79,500,000	99,375,000	99,375,000	124,219,000	139,746,000	163,037,000	163,037,000
INDUSTRIAL & ALLIED										
large										
Kenya Power & Lighting Ltd	97,850,000	79,128,000	79,128,000	79,128,000	79,128,000	79,128,000	79,128,000	79,128,000	79,128,000	79,128,000
Bamburi Portland Cement Ltd	362,931,725	362,950,925	362,950,925	362,950,925	362,950,925	362,950,925	362,950,925	362,950,925	362,959,275	362,959,275
Kengen Ltd	22,804,241	22,804,241	274,795,182	274,795,182	274,795,182	274,795,182	274,795,182	2,198,361,456	2,198,361,456	2,198,361,456
East African Breweries Ltd	93,602,252	97,402,198	97,402,198	97,402,198	97,402,198	97,402,198	97,402,198	97,402,198	658,879,000	790,774,000
British American Tobacco Ltd	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000
Total Kenya Ltd	35,013,000	35,013,000	35,013,000	35,013,000	35,013,000	35,013,000	35,013,000	35,013,000	35,013,000	35,013,000
Mumias Sugar Company Ltd	510,000,000	510,000,000	510,000,000	510,000,000	510,000,000	510,000,000	510,000,000	510,000,000	1,530,000,000	1,530,000,000
small										
Olympia Capital Holdings Ltd	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	30,000,000	40,000,000
Unga Group Ltd	46,858,758	52,954,468	52,954,468	52,954,468	63,090,728	63,090,728	63,090,728	63,090,728	63,090,728	63,090,728
Athi River Mining Ltd	75,000,000	75,000,000	93,000,000	93,000,000	93,000,000	93,000,000	93,000,000	93,000,000	99,055,000	99,055,000
Crown Berger Ltd	21,570,000	21,570,000	21,570,000	21,570,000	21,570,000	23,727,000	23,727,000	23,727,000	23,727,000	23,727,000
East African Cables Ltd	20,250,000	20,250,000	20,250,000	20,250,000	20,250,000	20,250,000	20,250,000	20,250,000	20,250,000	20,250,000
East African Portland Cement Ltd	90,000,000	90,000,000	90,000,000	90,000,000	90,000,000	90,000,000	90,000,000	90,000,000	90,000,000	90,000,000
Kenya Oil Ltd	7,199,800	10,079,612	10,079,612	10,079,612	100,796,120	100,796,120	100,796,120	101,475,170	101,696,120	147,176,120

APPENDIX 7

Earnings Per Year

COMPANY/SECTOR										
AGRICULTURAL										
	1,999	2,000	2,001	2,002	2,003	2,004	2,005	2,006	2,007	2,00
large										
Unilever Tea Ltd	219,744	454,664	221,842	124,435	66,016	365,582	69,003	54,413	-105,097	66,53
Williamson Tea Ltd	47,442	78,236	47,442	78,236	64,354	80,421	88,231	-55,048	139,671	-86,73
Kakuzi Limited	86,126	26,367	1,744	70,498	78,500	131,578	-62,547	253,143	270,330	390,18
sasini tea and coffee limited	26,052	110,772	15,390	-6,940	-250,307	771,162	-386,594	236,738	-33,571	875,66
small										
Rea Vipingo	29,646	-30,591	3,996	24,809	40,465	201,302	216,754	184,428	167,785	227,21
Limuru Tea Ltd	9,301	11,824	-2,983	2,077	8,047	9,659	-3,159	4,829	2,045	8,46
Eaagads Ltd	-8,534	7,328	947	3,861	3,415	1,081	-1,962	5,075	-1,508	29,68
COMMERCIAL & SERVICES										
large										
Kenya Airways Ltd	993,000	2,922,000	1,357,000	868,000	400,000	1,302,000	3,875,000	4,829,000	4,098,000	3,869,00
Nation Media Group Ltd	247,600	203,100	256,700	403,800	6028--	641,400	716,200	783,200	1,089,600	1,287,40
TPS Eastern Africa (Serena)Ltd	79,336	83,052	96,706	105,889	25,077	130,526	22,945	332,660	414,367	222,71
Standard Group Ltd	-120,571	-126,226	62,842	-12,040	180,667	77,790	64,408	153,383	220,802	261,74
small										
Marshalls (E A) Ltd	-211,118	-104,235	-308,673	29,251	22,045	22,256	42,498	44,700	42,321	43,56
Cooper Motor Cooperation Ltd	167,609	122,654	86,087	152,780	176,988	262,962	339,987	434,248	618,319	927,16
Express Kenya Ltd	-13,399	-5,973	-31,422	-56,007	-68,151	4,610	53,930	66,329	73,617	-44,00
Car and General Ltd	14,704			6,409	60,679	36,544	193,945	135,656	171,866	211,64
FINANCE & INVESTMENT										

large										
Barclays Bank Ltd	2,254,000	2,068,000	2,955,000	1,783,000	3,367,000	3,694,000	3,729,000	4,492,000	4,910,000	5,525,00
Kenya Commercial Bank Ltd	-1,554,665	-464,469	195,644	-3,000,639	612,441	787,051	1,326,027	2,431,878	2,974,572	4,190,69
Standard Chartered Bank Ltd	1,737,119	2,175,138	2,243,082	2,206,127	2,788,717	1,832,647	2,452,174	2,634,300	3,469,877	3,250,81
CFC Bank Ltd	189,304	193,642	141,392	173,689	299,357	433,046	464,195	786,072	924,717	846,59
small										
Centum Investment Ltd	270,215	227,147	154,334	246,522	159,149	241,350	295,234	606,598	1,115,060	868,32
Pan African Insurance Ltd	37,542	-51,172	-152,295	-15,614	-23,440	93,811	176,000	425,000	147,000	-96,00
City Trust Ltd	8,334	9,333	9,281	5,350	-53	97	1,529	16,590	34,288	42,13
Diamond Trust Bank Ltd	104,224	163,574	40,932	75,525	139,241	163,998	487,830	294,598	690,961	1,024,48
INDUSTRIAL & ALLIED										
large										
Kenya Power & Lighting Ltd	1,305,262	-1,607,982	-2,876,711	-1,879,553	-3,051,355	457,807	1,270,273	1,644,231		
Bamburi Portland Cement Ltd	630,000	289,000	731,000	1,228,000	1,718,000	1,948,000	2,155,000	2,799,000	3,810,000	3,412,00
Kengen Ltd	257,030	4,029,959	1,702,787	2,280,397	2,519,879	1,683,596	1,753,152	3,768,933	2,445,666	4,809,44
East African Breweries Ltd	1,075,745	1,234,060	1,573,406	2,319,250	3,935,167	3,849,058	4,769,912	5,393,488	7,528,891	9,184,38
British American Tobacco Ltd	1,237,398	582,710	604,105	822,120	1,140,021	1,210,194	1,382,038	1,201,422	1,385,697	1,700,39
Total Kenya Ltd	551,420	206,509	-222,101	360,201	514,963	577,007	531,561	486,078	524,190	703,89
Mumias Sugar Company Ltd	-140,450	573,748	482,800	65,116	-215,608	791,451	1,289,930	1,526,615	1,393,611	1,213,83
small										
Olympia Capital Holdings Ltd	7,572	3,151	-16,098	5,051	9,233	22,921	11,781	14,800	16,890	20,57
Unga Group Ltd	-380,301	-682,598	-132,484	-56,813	-27,046	-101,949	124,492	64,601	133,610	373,66
Athi River Mining Ltd	20,205	29,890	33,805	57,390	97,106	115,998	199,504	264,557	503,454	421,65
Crown Berger Ltd	42,956	19,480	23,210	55,442	59,166	50,900	34,418	63,772	74,732	28,29
East African Cables Ltd	21,849	30,394	15,936	-5,946	9,365	123,661	212,939	284,635	417,125	462,76
East African Portland Cement Ltd	-878,586	-419,468	736,485	123,179	226,143	-269,177	607,872	411,793	764,134	536,65
Kenya Oil Ltd	211,132	155,601	375,072	441,460	468,745	838,484	902,876	842,957	593,434	1,155,31

APPENDIX 8
Net Assets

COMPANY/SECTOR					NET ASSETS					
	1,999	2,000	2,001	2,002	2,003	2,004	2,005	2,006	2,007	2,008
	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000
AGRICULTURAL										
large										
Unilever Tea Ltd	5,537,299	5,782,032	5,587,642	5,597,630	4,206,096	4,250,671	4,260,237	4,397,882	3,783,056	4,822,505
Williamson Tea Ltd	1,933,321	2,021,597	2,272,142	2,187,890	3,009,231	3,058,546	3,108,138	2,945,074	3,430,085	3,574,295
Kakuzi Limited			2,242,070	2,227,503	1,677,957	1,773,550	1,450,254	1,703,718	1,943,759	2,253,630
sasini tea and coffee limited	2,334,066	2,350,465	1,960,874	1,960,310	2,776,304	3,797,526	2,895,211	2,952,976	3,565,065	6,435,083
small										
Rea Vipingo	413,930	509,907	612,225	653,977	472,201	487,898	498,545	478,583	869,192	1,077,524
Limuru Tea Ltd	38,017	38,841	28,178	30,255	45,278	45,937	40,140	52,099	31,228	36,117
Eaagads Ltd	183,391	185,059	193,733	171,378	194,478		182,866	223,380	207,266	251,183
COMMERCIAL & SERVICES										
large										
Kenya Airways Ltd		7,925,000	7,925,000	7,663,000	7,349,000	8,420,000	12,329,000	17,890,000	21,640,000	25,873,000
Nation Media Group Ltd	1,832,800		2,150,900	2,391,900	2,827,300	2,867,400	3,627,800	3,855,600	4,003,200	445,800
TPS Eastern Africa (Serena)Ltd	1,203,298	1,288,494	1,386,681	1,411,798	1,390,553	1,420,153	4,287,929	5,481,524	5,453,060	5,489,639
Standard Group Ltd	-29,324	-155,550	-144,977	149,064		177,391	243,799	568,870	792,455	998,044
small										
Marshalls (E.A) Ltd	412,381	343,890	395,320	353,016	202,879	225,135	467,724	475,866	655,150	
Cooper Motor Cooperation Ltd	2,244,343	2,332,009	1,188,378	1,281,502	1,421,866	1,758,668	3,405,000	3,951,748	4,313,352	5,075,762
Express Kenya Ltd	318,840	313,454	185,013	146,786	139,314	218,209	294,689	511,346	515,917	811,085
Car and General Ltd				298,614	354,816	398,442	603,204	732,479	886,599	1,128,845

FINANCE & INVESTMENT										
large										
Barclays Bank Ltd	9,895,000	10,343,000	11,400,000	9,989,000	11,022,000	12,500,000	13,200,000	14,900,000	17,600,000	20,500,000
Kenya Commercial Bank Ltd	8,841,231	8,394,354	8,157,675	5,267,455	5,387,498	8,376,967	10,081,991	11,620,306	21,086,952	13,204,660
Standard Chartered Bank Ltd	6,164,368	6,402,097	5,619,317	5,618,397	6,367,973	6,063,194	9,589,249	10,129,857	10,916,008	11,012,004
CFC Bank Ltd	1,745,728	1,865,923	1,904,444	2,007,396	2,215,688	2,522,611	4,395,447	5,610,317	5,160,155	18,531,146
small										
Centum Investment Ltd	2,408,167	2,157,233	2,149,804	2,405,687	2,702,550	2,996,538	5,032,946	6,188,498	8,348,430	8,078,129
Pan African Insurance Ltd	2,026,161		1,650,531	878,283	604,391	799,144	931,339	1,327,317	1,361,511	1,185,946
City Trust Ltd	207,940	206,996		203,367	201,943	203,587	201,944	195,537	215,604	
Diamond Trust Bank Ltd	1,137,763	1,088,609	1,235,405	1,269,363	1,335,358	1,437,072	1,652,234	2,868,090	5,478,705	7,020,417
INDUSTRIAL & ALLIED										
large										
Kenya Power & Lighting Ltd	5,773,665	4,005,497	1,085,786	3,516,168	997,475	17,491,219	18,898,179	20,560,405	22,249,400	
Bamburi Portland Cement Ltd	10,449,000	12,008,000	9,944,000			12,616,000	11,532,000	12,931,000	17,497,000	22,772,000
Kengen Ltd	9,535,383	23,644,979	25,347,766	28,288,163	30,354,116	32,030,457	33,428,760	36,498,663	63,638,189	68,125,174
East African Breweries Ltd	6,789,045	8,738,556	10,038,231	11,171,841	11,440,359	11,518,044	18,582,828	20,291,270	20,850,776	22,116,843
British American Tobacco Ltd	4,965,893	4,323,603	4,672,791	4,734,575	4,807,121	4,368,513	4,554,512	4,955,444	5,725,440	5,907,169
Total Kenya Ltd	1,636,473	1,644,427	1,718,539	3,023,678	4,122,404	4,522,751	4,616,649	4,665,064	4,751,591	5,017,822
Mumias Sugar Company Ltd	3,840,659	4,323,496	5,354,095	5,065,115	4,865,654	5,402,105	6,080,035	7,709,049	8,337,660	9,041,497
small										
Olympia Capital Holdings Ltd	103,851	103,002	91,330	93,992	95,240	137,121	125,505	130,451		544,661
Unga Group Ltd	2,661,646		2,157,524	1,451,603	2,318,661	2,136,636	2,218,340	2,285,708	2,369,560	3,223,484
Athi River Mining Ltd	802,954	976,290	981,841	1,039,567	1,147,123	1,236,069	2,718,199	3,172,630	3,438,329	4,497,368
Crown Berger Ltd	560,459	530,346	527,838	555,952	593,706	612,251	646,669	770,953	813,869	821,952
East African Cables Ltd	4,506	3,426	274,435	246,017	249,009	317,042	589,086	805,019	1,102,345	1,366,839
East African Portland Cement Ltd		1,625,576	2,556,847	2,151,656	2,151,656	1,802,463	2,252,835	3,076,933	3,607,097	4,026,749
Kenya Oil Ltd	1,068,814	1,842,543	1,708,364	2,149,225	2,398,935	3,392,935	4,018,797	4,672,903	4,984,434	10,915,860

APPENDIX 9

Dividends Per Share

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
	Shs.	Shs.	Shs.	Shs.	Shs.	Shs.	Shs.	Shs.	Shs.	Shs.
AGRICULTURAL										
large										
Unilever Tea Ltd	4	6	2	2.5	6	6	2	2	0	
Williamson Tea Ltd	2.5	2.5	5	0.5	3.75	3.75	5	0.5	5	0.5
Kakuzi Limited			0	0	0	1	0	0	0	1
sasini tea and coffee limited	0.5	2	1	0.5	0	2.5	0	1	0	0
small										
Rea Vipingo	0	0	0	0.25	0.4	0.8	0.8	0.8	0.8	0.2
Limuru Tea Ltd	30	55	0	2.75	10	15	5	10	5	10
Eaagads Ltd	0.5	0	0.5	0.5	0		0	1.25	0	1.25
COMMERCIAL & SERVICES										
large										
Kenya Airways Ltd		1.25	1.25	0.6	0.5	0.75	1.25	1.75	1.75	1.75
Nation Media Group Ltd	1.75		2.35	2.5	10	6	6	7	10.5	5.5
TPS Eastern Africa (Serena)Ltd	1	1.1	1.1	1.1	1.1	1.1	0.5	1.25	1.25	1.25
Standard Group Ltd	0	0	0	0	0	0	0	0	1	1.1
small										
Marshalls (E.A) Ltd	0	0	0	0	1	1	1	1	1	
Cooper Motor Cooperation Ltd	0.75	0.75	0.75	1	0	0	1.5	2.3	0.35	0.45
Express Kenya Ltd	0	0	0	0	0	0	0	0.4	0.5	0
Car and General Ltd				0	0.67	0.67	0.67	0.67	0.67	0.67
FINANCE & INVESTMENT										

large										
Barclays Bank Ltd	10	10	12	12	14	14	14	1.65	1.65	2
Kenya Commercial Bank Ltd	*0*	*0*	*0*	*0*	1	2	4	6	0.7	1
Standard Chartered Bank Ltd	11	7.4	8.25	8.25	8.5	6.5	8.5	7.5		
CFC Bank Ltd	0.67	0.67	0.67	0.67	0.84	0.84	0.84	1.75	2.7	2.7
small										
Centum Investment Ltd	1.5	2	2	2	2.2	3	3	4	0.45	0.45
Pan African Insurance Ltd	0.75		0	0	0	1	1.2	1.44	1.6	0
City Trust Ltd	2	2		2.25	2.25	6.25	0	3.1	3.75	
Diamond Trust Bank Ltd	0.8	0.6	0.4	0.6	0.7	0.7	0.7	1	1.4	1.4
INDUSTRIAL & ALLIED										
large										
Kenya Power & Lighting Ltd				0	0	0	1.5	1.5	3	
Bamburi Portland Cement Ltd	1	0.75	1.12				5.3	5.5	6	6
Kengen Ltd	0	0	0	0	0	0.23	0.23	0 55	0.8	0.9
East African Breweries Ltd	7.5	7.5	9	11.5	18	15	4.5	5.9	7.34	8 05
British American Tobacco Ltd	10.5	7.9	7.9	9	12.5	16.5	12.5	12	17	17
Total Kenya Ltd	0		0	1.7	2.5	2.5	2.5	2.5	2.5	2.5
Mumias Sugar Company Ltd	4	8.44	0	0.1	0	0.4	1.5	1.75	1.5	0.4
small										
Olympia Capital Holdings Ltd	0.4	0.4	0	0	0	0	0	0	0.2	0.2
Unga Group Ltd	0	0	0	0	0	0	0	0	0	0
Athi River Mining Ltd	0	0.2	0	0.4	0.4	0	0.75	1	1.25	1.25
Crown Berger Ltd	2	0.5	0.5	1.5	0	1.5	1	1.5	1	1
East African Cables Ltd	4.5	1.1	1.1	0.5	1	3.4	0.5	0.7	0.9	1
East African Portland Cement Ltd		0	1	1	1.75	1.75	2.5	2.6	2.6	0
Kenya Oil Ltd	7.5	6	7.5	9.5	0.55	2	2.25	2.25	0	8.58