

**RELATIONSHIP BETWEEN DIVIDEND POLICIES AND SHARE PRICES FOR
COMPANIES QUOTED AT THE NAIROBI STOCK EXCHANGE**

BY

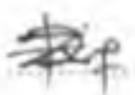
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**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE
REQUIREMENT OF MASTER OF BUSINESS ADMINISTRATION, SCHOOL
OF BUSINESS, UNIVERSITY OF NAIROBI**

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DECLARATION

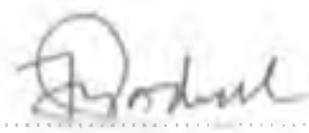
This research is my original work and has not been submitted for a degree in any other university.

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This project was submitted for examination with my approval as the University supervisor.

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DEDICATION

I dedicate this work to family of Mr. & Mrs. Eustace Muriuki Njunia for the sacrifice they made for me to complete the study. Their love, care, concern, support, encouragement and enthusiasm inspired me to achieve this goal.

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ABSTRACT

The effect of a firm's dividend policy on the current price of its shares is a matter of considerable importance. The expected relationship between dividend policy and share prices is that stable dividend payout will increase share prices and vice versa. However, dividend irrelevant theorists argue that dividend policy of a firm is irrelevant because it has no effect on either the price of the firm's stock or its cost of capital. This study aimed at determining the relationship between dividend policy and share prices for companies quoted at the NSE

This study used a causal research design. The target population of this study was all the firms 47 quoted at the Nairobi Stock Exchange (N.S.E). There are 47 listed firms at the Nairobi stock exchange. The study was a census survey. The stock prices of the listed firms in the Nairobi Stock Exchange are normally in the public domain and thus data was obtained from NSE. Primary data was collected by use of a semi-structured questionnaire to establish the type of dividend policy firms in NSE employ. This study therefore recommends that firms listed in Nairobi stock exchange should employ a policy of paying constant amount per share e.g. Kshs. 2 per share. This study revealed that paying constant amount per share was the most suitable of all the four firm policies analyzed.

To the government of Kenya this study recommends that it should form policies that to protect shareholders from exploitation by firms management. If a firm was to use a constant payout ratio policy it would create uncertainty to ordinary shareholders especially those who rely on dividend income and they might demand a higher required rate of return.

To the investor this study recommends that they should invest in the firms that pay constant amount per share plus extra amount depending on profitability. Constant amount per share plus extra gives the firm flexibility to increase dividends when earnings are high and participate in supernormal earnings. It assures the investor of a constant amount per share and extra if there happens to a profit in the company

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Dividend policy refers to a company's stance on whether it will pay out profits as dividends or keep them as retained earnings. If the company decides to issue dividends, the policy will outline whether or not the dividends will be issued on an ongoing basis, or if the dividend payout will be irregular. The decision regarding the magnitude of the dividend payout, the percentage of earnings paid to the stockholders in the form of dividends is designated by company's board of directors (Gordon, 1963). Share price refers to the market value of a particular company's stocks at a particular time. In other words, it is the market value of shares being offered for sale. Share price of a common stock on the date shown is an average of highest and lowest intra-day trading prices (Allen and Rachim, 1996).

There is considerable debate on how dividend policy affects firm value. For preferred shares, it is generally a fixed amount. For common shares, the dividend varies with the fortunes of the company and the amount of cash on hand. It may be omitted if the business is poor or the directors withhold earnings to invest in capital expenditure. Since most closely held companies do not pay dividends, when using dividend capitalization valuations must first determine dividend paying capacity of a business. Dividend paying capacity based on average net income and on average cash flow is used (Deangelo, Deangelo and Skinner, 2004).

Historically there has been discussion on why firms pay dividends and whether it affects the market value of the share. Until the 1960s this discussion was divided into two schools of thought: Dividend theoreticians claimed that the market value of the share depends on dividends. On the other hand, earnings theoreticians stated that the market value of the share was not affected by dividends (Gordon, 1963).

Empirically it has been found that the market value of the share and dividends has some kind of interdependence. Dividend theories explained that it was because the value of the

share depends on dividends. Earnings theories argued that by dividends managers signal the firm's future earnings (signalling hypothesis). Modigliani-Miller also argued that changes in dividend policy do not affect the value of the firm because only clienteles change but not the value of the firm (clienteles hypothesis). In this question researchers were also interested in how dividend announcements and dividends affect share prices (ex-date effects) (Feldstein and Green, 1984).

The discussion was polarised until the 1970s when the Capital Asset Pricing Model and market efficiency hypothesis gave a new insight into the discussion on corporate finance. Later studies have relaxed the perfect market assumptions and found views on the agency theory, asymmetric information in dividends and wealth transfer hypothesis. Agency-theory based optimal dividend applications confused the discussion still more. The later discussion on dividends is concentrated on studying the importance of various ways to divide earnings and dividend policies in various situations. Dividends and taxes have been researched all the time. In the latter part of the 1990s the discussion turned back to starting point, relaxing the basic assumptions of the dividend irrelevancy. In fact, it is one way to explain the dilemma between the propositions of Miller-Modigliani and some schools based on empirical results (Olson and McCann, 1994).

In dividend decisions, the question is about decision-making and controlling power. The one who affects dividend decisions is doing it from the perspective of their own preferences. Controlling the corporation makes also it possible to control dividend decisions. The three groups affected the most by the firm's dividend policy are stockholders, bondholders and managers. Studies so far have researched the relations between each group as a whole.

The stock exchange is part of the securities segment of the capital market. Investments that represent evidence of debt, ownership of a business, or the legal right to acquire or sell an ownership interest in a business are called securities (Seitz, 1990). The most common types of securities are stocks, bonds and options. Securities markets are the mechanisms that allow suppliers and demanders of funds to make transactions. They also allow transactions to be made quickly and at a fair price (Feldstein and Green, 1984).

1.1.1 Nairobi Stock Exchange

The Nairobi Stock Exchange (NSE) is the principal stock exchange of Kenya. It began in 1954 as an overseas stock exchange while Kenya was still a British colony with permission of the London Stock Exchange. The Nairobi Stock Exchange deals in both variable income securities and fixed income securities. Variable income securities are the ordinary shares which have no fixed rate of dividend payable as the dividend is dependent upon both the profitability of the company and what the board of directors decides. The fixed income securities include Treasury and Corporate Bonds, preference shares, debenture stocks - these have a fixed rate of interest/dividend, which is not dependent on profitability. The stock market consists of both the primary and secondary markets. In the primary or new issue market, shares of stock are first brought to the market and sold to investors. In the secondary market, existing shares are traded among investors (Ngugi, 2003).

A stock market is a place where securities are traded. These securities are issued by listed companies and by the government, with the aim of raising funds for different purposes such as to fund expansion for the former, and development and finance budget deficits for the latter. Common securities traded on a stock exchange include company shares, corporate bonds, and government debt in the form of treasury bonds. The Nairobi Stock Exchange which was formed in 1954 as a voluntary organization of stock brokers is now one of the most active capital markets in Africa (NSE Hand Book 2004 -2005).

As a capital market institution, the Stock Exchange plays an important role in the process of economic development. It helps mobilize domestic savings thereby bringing about the reallocation of financial resources from dormant to active agents. Long-term investments are made liquid, as the transfer of securities between shareholders is facilitated. The stock exchange has also enabled companies to engage local participation in their equity, thereby giving Kenyans a chance to own shares (Kimura and Amoro, 1999).

Companies can also raise extra finance essential for expansion and development. To raise funds, a new issuer publishes a prospectus which gives all pertinent particulars about the operations and future prospects and states the price of the issue. A stock market also

enhances the inflow of international capital. They can also be useful tools for privatization programs. The Nairobi Stock Exchange is at present made up of eighteen stock broking firms. These members of the Nairobi Stock Exchange transact business mainly on the Nairobi market, with a limited proportion of business conducted in foreign securities through overseas agents. The stock brokers act as financial advisers to their clients and also carry out their orders (Odundo, 2004).

1.2 Statement of the Problem

The effect of a firm's dividend policy on the current price of its shares is a matter of considerable importance. The expected relationship between dividend policy and share prices is that stable dividend payout will increase share prices and vice versa. However, dividend irrelevant theorists argue that dividend policy of a firm is irrelevant because it has no effect on either the price of the firm's stock or its cost of capital. Contrary, dividend relevance theorists argues that a shilling received now is always higher than the value of a shilling received later. According to dividend relevance theorists, the shareholders are expected to express their preference for dividend by valuing the common stock higher if the firm pays out a large proportion of its earnings in dividends than if the firm retains most of its earnings

Following Miller and Modigliani's (1961) pioneering dividend irrelevance hypothesis, financial economists have advanced a number of contradicting theories in an attempt to explain why corporate dividend policy seems to matter in practice. Some theories have developed around the proposition that dividend policy is relevant due to the existence of differential taxes. Signaling theory argues that clientele effects matter in dividend policy and predicts that firms can convey information to the market by paying dividends. Agency theory suggests that dividend policy is affected by other market imperfections such as information asymmetries and agency costs; dividends can reduce the costs of shareholder-manager conflict (Rozeff, 1982).

A number of local studies related to dividend policies have been done Karanja (1987), for instance, studied dividend practices of publicly quoted companies and found out that there are many reasons why firms pay dividends. One reason is lack of investment

opportunities which promises adequate returns. Firm's cash position is the most important consideration of timing of dividends. Onyango (1999) did a study to establish factors managers consider before declaring bonus issues and the estimation of benefits to shareholders at the NSE and observed that shareholders tend to receive higher cash dividends after bonus issue. Njuru (2007) did a study to test for 'under-reaction' to stock dividend announcement at Nairobi Stock Exchange (NSE). Odhiambo (2005) studied the shareholders' pressure on the firm's decision to pay dividends at NSE. Siero (2006) did an exploratory study at the NSE on determining probability of a company paying dividends. There is no known local study that had been done on the relationship between dividend policies and share prices at the NSE. Motivated by this gap in literature, the study sought to determine the relationship between dividend policies and share prices at the NSE.

1.3 Objective of the study

The main objective of this study was to determine the relationship between dividend policy and share prices for companies quoted at the NSE.

1.4 Significance of the study

Management: The findings of this study were of interest to the management of publicly quoted companies who were able to determine the effect of dividends on the value of their firms so that they can make prudent dividend decisions.

Government: The government of Kenya was enlightened in a bid to make fiscal policies relating to dividends and taxes. The regulators and policy makers under the government also benefited from the insight that was highlighted by the findings of this study.

Investors: The investors also benefited from this study's findings as the results provided important information that can be used in investment decisions.

Scholars and academicians: Scholars and academicians who may wish to use the findings of this study as a basis for further research will acquire adequate information on dividend policy and other related issues.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents the literature in the field of dividend policies and the stock market share prices. First, various dividend policies are discussed followed by the discussion on the considerations in determining dividend payout. This is followed by a discussion of dividend hypothesis and then a discussion of the relationship between dividend policies and share prices.

2.2 Dividend Policies

Dividend policy refers to the decision regarding the magnitude of the dividend payout, the percentage of earnings paid to the stockholders in the form of dividends. In order to make sure the policy is workable, a company should develop a viable policy and then run this policy through a number of test scenarios in order to determine what impact the dividend policy would have on the operation of the business (Nissim and Ziv, 2001).

In many cases, companies choose to explicitly state the provisions within the dividend policy. This is definitely to the advantage of the shareholder, as a well defined policy makes it much easier to project the amount of payout profits generated for the period under consideration and thus be able to determine the size of the dividends that will be issued. When the dividend policy is well defined and documented, it is easy for the shareholder to obtain a written copy and thus be fully informed as to how the policy works. However, there are cases where the dividend policy is not so well documented. When this is the case, investors sometimes base their assumptions on upcoming dividend payments on what has occurred in the past. While less systematic, it is still possible to project a more or less accurate estimate of what the dividend payout will actually be (Benartzi et al., 1997).

In cases where the dividend policy is not specifically defined, investors often look at the history to spot any trends that emerged in the past. If the dividend payments have been

more or less constant for the last several years, and there has been no loss in business volume, it is reasonable to assume the payments will still be in the same general range as before. However, if the dividend history is more volatile, the shareholder may attempt to identify what factors led to the up and down movement of the dividends and determine if any of those factors are relevant to the current dividend period (Allen and Rachim, 1996).

Dividends are relevant because they have informational value. Financial signaling theory implies that dividends may be used to convey information. Information, rather than dividends itself, affects share prices (Brigham and Gapenski, 1994). The payment of dividends conveys to shareholders that the company is profitable and financially strong. This in turn causes an upsurge in demand for the firm's shares causing a rise in their market prices. When a firm changes its dividends policy, investors assume that it is in response to an expected change in the firm's profitability which will last long (Pandey, 2004). An increase in payout ratio signals to shareholders a permanent or long term increase in firm's expected earnings. Accordingly, the prices of shares are affected by changes in dividends policy. This, therefore call for studies to be conducted in the area of dividend policy and how this policy affects market prices of shares.

2.2.1 Constant payout ratio

This is where the firm will pay a fixed dividend rate (e.g. 40% of earnings). The Dividend per Share would therefore fluctuate as the earnings per share changes. Dividends are directly dependent on the firm's earnings ability and if no profits are made then, no dividends are paid. This policy creates uncertainty to ordinary shareholders especially those who rely on dividend income and they might demand a higher required rate of return (Gitman, 1998).

2.2.2 Constant amount per share

The dividend per share (DPS) is fixed in amount irrespective of the earnings levels (Gitman, 1998). This creates certainty and is therefore preferred by shareholders who have a high reliance on dividend income. It protects the firm from periods of low earnings by fixing, DPS at a low level. This policy treats all shareholders by giving a

fixed return. The DPS could be increased to a higher level if earnings appear relatively permanent and sustainable.

2.2.3 Constant Dividend per share plus extra

Under this policy, a constant DPS is paid every year, however extra dividends are paid in years of supernormal earnings. It gives the firm flexibility to increase dividends when earnings are high and participate in supernormal earnings. The extra dividends are given in such a way that it is not perceived as a commitment by the firm to continue the extra dividend in the future. It is applied by the firms whose earnings are highly volatile e.g agricultural sector (Gitman, 1998).

2.2.4 Residual dividend policy

Under this policy, dividends are paid out of earnings left over after investment decisions have been financed (Gitman, 1998). Dividends will only be paid if there are no profitable investment opportunities available. The policy is consistent with shareholders wealth maximization (Pandey, 2004)

2.3 Mode of Paying Dividends

2.3.1 Cash and Bonus Issues

For a firm to pay cash dividends, it should have adequate liquid funds. However, under conditions of liquidity and financial constraints, a firm can pay stock dividends (Bonus issue). Bonus issue involves issue of additional shares for free (instead of cash) to existing shareholders in their shareholder's proportion. Stock dividends/Bonus issue involves capitalization of retained earnings and does not increase the wealth of shareholders. This is because retained earnings are converted to shares (Pandey, 2004).

2.3.2 Stock split and reverse split

This is where a block of shares is broken down into smaller units (shares) so that the number of ordinary shares increases and their respective par value decreases at the stock split factor. Stock split is meant to make the shares of the company more affordable by low-income investors and increase their liquidity in the market. On a stock exchange, a reverse stock split or reverse split is a process by a company of issuing to each

shareholder in that company a smaller number of new shares in proportion to that shareholder's original shareholding which is cancelled. It is the opposite of a stock split, i.e. it is a stock merge or a reduction in the number of issued shares and an accompanying increase in the share price. New shares are typically issued in a simple ratio, e.g. 1 new share for 2 old shares, 3 for 4, etc. There is a stigma attached to doing a reverse stock split, so it is not initiated without very good reason (Brealey and Myers, 1991).

2.3.3 Stock Repurchase

The company can also buy back some of its outstanding shares instead of paying cash dividends. This is known as stock repurchase and share repurchased or bought back are called treasury stock. If some outstanding shares were repurchased, fewer shares would remain outstanding. Assuming repurchase does not adversely affect firm's earnings, E.P.S of share would increase. This would result in increase in market price per share (M.P.S) so that capital gains are substituted for dividends (Hirt, 1980).

2.4 Considerations in Determining a Dividend Payout

These are the various factors that firms in practice can and should analyze when approaching a dividend decision.

2.4.1 Fund needs of the firm

The expected operating cash flows of the firm, expected future capital expenditures, any likely build-ups in receivables and inventories, scheduled reduction in debt, and anything that affects the cash position of the firm should be taken into account (Gitman, 1998). The key is to determine the likely cash flows and cash position of a change in dividend. In addition to looking at expected outcomes, business risk should be factored in so that we may obtain a range of possible cash-flow outcomes (Hirt, 1980, Gitman, 1998)

The firm wishes to determine if anything is left over after servicing its fund needs, including profitable investment projects. In this regard, the firm should look at its situation over a reasonable number of future years, to iron out fluctuations. The likely ability of the firm to sustain dividends should be analysed relative to the probability of

distributions of possible future cash flow and cash position. On the basis of this analysis, the firm can determine its likely future residual funds (Van Horne, 1989).

2.4.2 Liquidity

The liquidity of company is a prime consideration in many dividend decisions. As dividends represent cash outflow, the greater the cash position and overall liquidity of a company, the greater it's ability to pay a dividend. A company that is growing and profitable may not be liquid, for its funds may go into fixed assets and permanent current assets. Because management of such a company usually desires to maintain some liquidity cushion to give it flexibility and protection against uncertainty, it may be reluctant to jeopardize this position in order to pay a large dividend. The investment decision determines the rate of asset expansion and the firm's need for funds, and the financing decision determines the way in which, this need will be financed (Weston & Brigham, 1981).

2.4.3 Ability to borrow

A liquid position is not the only way to provide for flexibility and protect against uncertainty. If a firm thereby has the ability to borrow on a comparatively short notice, it may be relatively flexible. The ability to borrow can be in the form of a line of credit or a revolving credit from a bank or simply the informal willing of a financial institution to extend credit (Gitman, 1998). In addition, flexibility can come from the ability of a firm to go to the capital markets with a bond issue. The larger and more established a company, the better its access to capital markets. The greater the ability to borrow, the greater is its ability to pay a cash dividend. With ready access to debt funds, management should be less concerned with the effect that the cash dividend has upon its liquidity (Van Horne, 1989).

2.4.4 Assessment of any valuation information

Regression analysis involving similar companies may give some indication, even though studies on this line have statistical problems in addition to the troublesome job of trying to hold all else constant (Benartzi *et al.*, 1997). As a result, it usually is difficult to make company-specific generalizations concerning the effect of dividends on stock market

prices. Most companies look at the dividend payout ratios of other companies in the industry, particularly those having about the same growth. It may not matter that a company is out of line with similar companies but it will be conspicuous; and unusually a company should judge the informational effect of a dividend. What do investors expect? Here security analysts and security reports are useful. The company should ask itself what information it is conveying with its present dividend and what it should convey with a possible change in dividend (Hellert, 1966).

2.4.5 Control

If a company pays substantial dividends it may need to raise capital at a latter time through sale of stock in order to finance profitable investment opportunities. Under such circumstances, the controlling interest of the company may be diluted if controlling stockholders do not or cannot subscribe for additional shares. These stockholders may prefer low dividends payout and the financing of the investment needs with retained earnings. Control can work two ways, however. When a company is being sought by another company or individuals, a low dividend payout may work to the advantage of the "outsiders" seeking control. The outsiders may be able to convince stockholders that the company is not maximizing shareholder wealth and that they (the outsiders) can do a better job. Consequently, companies in danger of being acquired may establish a high dividend payout in order to please stockholders (Weston & Brigham, 1981).

2.4.6 Nature of stockholders

When a firm closely held, management usually knows the dividend desires of its stockholders and may act accordingly. If most stockholders are in high tax brackets and prefer capital gains to current income, the firm can establish a low dividend payout. The low payout, of course, would be predicated upon having profitable investment opportunities for the retained earnings. The corporation with a large number of stockholders can judge their desires for dividends only in a market (Myers, 1984).

2.4.7 Restrictions in bond indenture or loan agreement

The protective covenants in a bond indenture or loan agreement often include a restriction on payment dividends. The restriction is employed by the lenders to preserve

the company's ability to service debt. Usually, it is expressed as a maximum percentage of cumulative earnings. When such a restriction is in force, it naturally influences the dividend policy of the firm. Sometimes the management of a company welcomes a dividend restriction imposed by lenders because it does not then have to justify stockholders the retention of earnings. It need only point to the restriction (Kolb & Demong, 1988).

2.4.8 Inflation

Inflation also may have an influence upon dividend policy. With rising prices, funds generated from depreciation are not sufficient to replace or restore existing assets as they wear out or become obsolete. Consequently, a case can be made for retaining earnings simply to preserve the earning power of the firm. The decision must be based upon investment policy and valuation (Seitz, 1990).

2.5 Theories of Dividend Policy /

Several theories have been advanced to explain the relationship, if any, between dividend policy and the value of the firm. These are presented below.

2.5.1 Dividend Irrelevance Theory (Modigliani and Miller-MM 1961)

According to MM the dividend policy of a firm is irrelevant because it has no effect on either the price of the firm's stock or its cost of capital. The MM argument was presented under the following assumptions: There are no personal or corporate income taxes; There are no stock floatation or transaction costs; Dividend policy has no effect on firm's cost of equity; The firm's capital investment policy is independent of its dividend policy; and investors and managers have the same set of information regarding future investment opportunities (Jensen and Meckling, 1976).

On the basis of the above assumptions if a firm pays higher dividends, then it must sell more shares to new investors. The portion of the value of the firm given up to new investors is exactly equal to the dividends paid out. This leaves the value of the firm unchanged. Thus the value of a firm is determined by its basic earnings power and its risk class. In other words, it is the asset investment policy, rather than the way earnings are

split between dividends and retained profit, that determines the value of the firm. The MM conclusions on dividend irrelevancy may not hold under real world conditions. The existence of imperfections such as: Firms and investors paying taxes, firms incurring floatation costs whenever they sell additional shares, and investors paying brokerage/transaction costs whenever they buy or sell shares.

2.5.2 Tax differential theory

The tax advantage of capital gains over dividend income may make shareholders prefer earnings retention to payout. Thus the stock price per share of the firm would be higher if dividends are not paid than if they were paid out. The tax advantage of capital gains over dividend income arises for two reasons:- The personal tax rate on dividend income is greater than the personal tax rate on capital gains and by not selling shares, the investor could defer realization of the capital gains and hence payment of the tax. Deferring payment of tax benefits the tax payer due to the time value of money (Lintner, 1956).

2.5.3 Arguments for Dividend Relevance

2.5.3.1 "Bird – in – the – hand" Theory (Gordon and Lintner 1963)

Dividend policy is relevant to the value of the firm for the following reasons: As the value of a shilling received now is always higher than the value of a shilling received later, shareholders prefer current dividend payments to retention of earnings. Since dividend received now is certain income whereas retained earnings reinvested in corporate assets may be uncertain income hence need for discounting to reflect the uncertainty. By and large, the shareholders should therefore express their preference for dividend by valuing the common stock higher if the firm pays out a large proportion of its earnings in dividends than if the firm retains most of its earnings. If the firm were to reinvest the retained earnings at a rate of return that would compensate for the risk borne by shareholders, then the theory might not be valid; or if the shareholders only alternative in using dividends received were to reinvest in assets of equal or greater risk, the theory might not be applicable (Olson and McCann, 1994).

2.5.3.2 Residual Theory

The theory holds that dividends should be the residue of the capital investment decision-making process. The following should be considered in assumption of this theory: Capital investment proposals should be accepted wherever their expected rates of return exceed their required rates of return (risk-adjusted marginal cost of capital); These investments can be financed by equity and debt; The cost of equity may have two components, the cost of retained earnings, and the cost of new issues. As the cost of retained earnings is lower than the cost of external equity the shareholders would appear to be better off if available earnings were retained to finance investments. Thus only the earnings that are left over after financing capital investment projects should be paid out in dividends. Dividends are therefore a passive decision variable because they are only to be paid out if the firm cannot make better use of the funds for the benefit of the shareholders (Onyango, 1999). The problem of residual theory is that it gives no recognition to how investors feel about dividends. The issue is not only whether a reinvestment of retained earning or dividends provides the highest return, but also how investors react to the two alternatives.

2.6 Empirical Studies

Empirical studies have examined cross-sectional variation in dividend payout ratios and CAPM beta coefficients. Beaver *et. al.* (1970) estimated CAPM betas for 307 US firms and obtained significant correlation between beta and dividend payout. Rozeff (1982) found a high correlation between value line CAPM and betas and dividend payout for 1000 US firms. Fama (1991) and Fama and French (1992) focus on dividends and other cash flow variables such as accounting earnings, investment, industrial production etc to explain stock returns. Haskin (1989) takes a slightly different approach and examines the influence of dividend policy on stock price volatility, as opposed to returns. The difficulty in any empirical work examining the linkage between dividend policy and stock volatility or returns lies in the setting up of adequate controls for the other factors. For example, the accounting system generates information on several relationships that are considered by many to be measures of risk. Baskin (1989) suggests the use of the following control variables in testing the significance of the relationship between

dividend yield and price volatility; operating earnings, size of the firm, level of debt financing, payout ratio and level of growth. These variables have a clear impact on stock returns but also impact on dividend yield.

Lintner (1956) conducted an empirical research over dividend pattern of 28 companies for the period of 1947-1953 with the help of regression analysis. The study concluded that a major portion of dividend of a firm would be expressed in terms of firm's desired dividend payment and target payout ratio. Lintner's seminal work on dividend payout practices (1956) finds that managers believe that stockholders prefer stable dividends and that the market puts a premium on such stability. He hypothesizes that differences among firms in target payout ratios reflect judgments based on factors such as prospects for growth of the industry and the individual firm, cyclical movements of investment opportunities, and earnings prospects for the firm. Lintner also suggests that dividend policies have industry effects. While an industry effect may reflect correlation of factors such as investment opportunities, earnings stability, and internal funds availability among firms within the same industry (Lintner, 1956), Lintner seems to have had more in mind. He refers to dividend leadership as analogous to price leadership and wage leadership, thereby suggesting a competitive dimension of the dividend decision apart from other firm-specific variables. In an earlier paper, Lintner cites the oil industry as an example of dividend leadership at work. He states that "Companies probably most generally follow the lead of other companies in the same industry, but on occasion may be concerned with maintaining some sort of conformance to other companies whose securities are, investment-wise, close substitutes for the company's own securities, even though the other companies are in entirely different industries."

Myers' (1984) description of managers' pecking order preferences for internal financing includes a link between dividend payout and factors such as investment opportunities and fluctuations in firm profitability. Empirical support for such a link is found in studies of the dividend payout practices of U.S. firms by McCabe (1979) for the late 1960s and early 1970s and by Rozell (1982) for the late 1970s.

In their study of aggregate dividend behavior of U.S. firms, Marsh and Merton (1987, p. 4) also suggest that firms observe industry practice in the selection of their target payout ratios, although they do not test explicitly for its effect. In one of the few direct tests of the industry effect hypothesis, Michel (1979) finds statistically significant differences in dividend payout ratios among 13 different industries during the late 1960s to the mid-1970s. (The significantly different industries are not identified individually.) Michel tests only for firm size (in regard to firm-specific variables that may affect dividend payouts) and finds no significant effect. He suggests, however, (1979, p. 24) that investment opportunities within industries may account partially for the industry effect. Baker (1988) updates the Michel study using data from 1977 to 1981. He too finds support for industry effects on dividend payout ratios, but, like Michel, he does not control for other variables. McCabe's cross-section analysis of dividend payouts (dividends relative to sales as opposed to dividends relative to earnings) of U.S. firms from 1966 through 1973 includes variables intended to capture effects of investment opportunities, availability of funds, and the firm's operating and financial leverage as reflected in beta. He also includes dummy variables for two digit SIC industries. He does not report the regression coefficients or the significance of the industry dummies, however, so one cannot discern whether his sample of 112 firms shows support for an industry effect.

Rozeff (1982) analyzes dividend payout ratios for a cross-section of 1,000 unregulated U.S. firms from 1974 to 1980 with regard to firm-specific determinants. Casting the payout decision as a tradeoff between transaction costs and agency costs, his model includes variables intended to capture the effects of investment opportunities and earnings variability on dividend payout. In addition, it includes variables that serve as proxies for agency cost effects on dividend decisions. All of the variables are highly significant with the expected signs, and the model accounts for nearly half of the variation in dividend payout ratios for his sample. Rozeff's analysis, which relies solely on firm-specific variables, does not account explicitly for potential industry differences. Thus, in the context of Rozeff's model, industries may provide measures of omitted variables influencing dividend policy that are not captured adequately by firm-specific variables.

Murray (1981) used non-capital market data to test the theoretical implication that dividend payout is negatively correlated with earning uncertainty. The study concluded that earnings uncertainty is a determinant of the corporate dividend decision. Ambarish et al. (1987) examined signaling equilibrium with dividends and new stock issues. A major implication of this study was that since the tax on dividends is not significant, the dividend itself may not be an economical signal. By combining the dividend signal with other signals such as debt or investment changes, the firm may be able to obtain a less-costly signaling-mix.

Kim and Viswanath (1992) studied the influence of transaction costs and agency costs on dividend payout of companies. The cross-sectional tests of the models performed on a sample of 357 industrial companies in 1979-1981 related dividend payout ratios to explanatory variables such as the fraction of equity held by insiders, past and expected future 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 company's dividend policy. Constat (1994) examined the relationship between earnings, dividend declarations and investor returns. The empirical results reported suggest that most of the information contained in dividends, that is useful to financial markets, is also contained in accounting earnings. There does appear to be some useful information in dividends that is not contained in accounting earnings.

Sharma and Rao (1992) attempted to identify the signaling aspects of corporate dividend policy. They included that the dividends are perceived as signals from (I) Management's point of view, (II) Performance point of view, and also (III) market's point of view. The empirical results indirectly support the semi-strong form of efficient market hypothesis. Karak (1993) examined the policy decision regarding divisible profit and dividend decision. The study concludes that management in India, as a rule, has followed conservative policies with regard to dividends. There is an increasing tendency on their part to finance the expansion out of internal resources as far as possible.

Njuru (2007) did a study to test for 'under-reaction' to stock dividend announcement at Nairobi Stock Exchange (NSE). The results showed evidence in favor of existence of under-reaction to stock dividend at the NSE for the period 1999 to 2005.

Odhiambo (2005) studied the shareholders' pressure on the firm's decision to pay dividends at NSE. In assessing the possible impact of shareholders' pressure on the decision of management to pay dividend, he observed that speculators identify non dividend paying companies that are likely to pay dividend and by paying a high price, put pressure on the shares of such firms by way of additional demand and consequently on corporate managers to pay dividends.

Siero (2006) did an exploratory study at the NSF on determining probability of a company paying dividends. He observed that dividend payout ratio, dividend yield, price earning ratio and price to book value are the most significant factors in discriminating the dividends paying firms from non payers at the NSE. He concluded that financial ratios are useful in estimating the likelihood of firm paying dividends.

2.7 Conclusion

Dividend policy remains a source of controversy despite years of theoretical and empirical research, including one aspect of dividend policy: the linkage between dividend policy and stock price. Paying large dividends reduces risk and thus influence stock price and is a proxy for the future earnings. A number of theoretical mechanisms have been suggested that cause dividend yield and payout ratios to vary inversely with common stock volatility. These are duration effect, rate of return effect, arbitrage pricing effect and information effect. Based on agency cost argument, dividend payments reduce costs and increase cash flow, that is payment of dividends motivates managers to disgorge cash rather than investing at below the cost of capital or wasting it on organizational inefficiencies.

Some studies have stressed the importance of information content of dividend. Miller and Rock (1985), for instance, suggested that dividend announcements provide the missing pieces of information about the firm and allows the market to estimate the firm's current earnings. Investors therefore may have greater confidence that reported earnings reflect

economic profits when announcements are accompanied by ample dividends. If investors are more certain in their opinions, they may react less to questionable sources of information and their expectation of value may be insulated from irrational influence.

From rate of return effect perspective, a firm with low payout and low dividend yield may tend to be valued more in terms of future investment opportunities. Consequently, its stock price may be more sensitive to changing estimates of rates of return over distant time periods. Thus expanding firms although may have lower payout ratio and dividend yield, exhibit price stability. This may be because dividend yields and payout ratio serves as proxies for the amount of projected growth opportunities. If forecasts of profits from growth opportunities are less reliable than forecasts of returns on assets in place, firms with low payout and low dividend yield may have greater price volatility. The rate of return effect implies that both dividend yield and payout ratio matters. Dividend policy may serve as a proxy for growth and investment opportunities.

The local studies were found to be economical in discussing relationship of dividend policy and stock prices. They have concentrated on reaction to dividend announcement, pressure by shareholders on non paying firms and importance of financial ratios in estimating the likelihood of firm paying dividends. A research gap therefore exists on the relationship between dividend policies and share prices for companies quoted at the Nairobi Stock Exchange.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the methods that were used by the study to achieve its set objectives. It starts with the research design, a description of the population and sample, data collection and analysis.

3.2 Research design

This study used a causal research design. Causal research explores the effect of one thing on another and more specifically, the effect of one variable on another. The research is used to measure what impact a specific change will have on existing norms and allows researchers to predict hypothetical scenarios. It analyzes the cause – effect relationship between the variables. Casual research designs attempt to specify the nature of functional relationship between two or more variables. Causal research is often used to infer causation or causality, i.e., which variables are the causes (called independent variables) and which variables are the consequence or effect (called dependent variables). In other words, causation means that an independent variable is expected to produce a change in the dependent variable in the direction and of the magnitude specified by the theory (Kelly, 1999).

3.3 Population

The target population of this study was all the firms quoted at the Nairobi Stock Exchange (N.S.E). There are 47 listed firms at the Nairobi stock exchange. The study was a census survey.

3.4 Data Collection

The study made use of both primary and secondary data for analysis. The stock prices of the listed firms in the Nairobi Stock Exchange are normally in the public domain and thus data was obtained from NSE. The study period was from year 2004 to year 2009. The study used average prices throughout the year. Primary data was collected by use of a

semi-structured questionnaire to establish the type of dividend policy firms in NSE employ.

3.5 Data Analysis

This study used a multivariate regression model to determine the relationship between the dependent and the independent variables. The dependent variable in this study were share prices at Nairobi stock exchange while the independent variables were: constant payout ratio, constant amount per share, constant dividend per share plus extra and residual dividend policy. These variables were measured using a likert scale. Descriptive statistics such as mean scores, standard deviation and variance were used for interpretation and measurement of variables. A change in Y (dependent variable) depended on changes in X_0 (independent variables).

The multivariate regression model for this study was;

$$Y = A + B_1X_1 + B_2X_2 + B_3X_3 + B_4X_4$$

Where Y was share prices at Nairobi stock exchange, A was an autonomous variable or a constant, X1 was constant payout ratio, X2 was constant amount per share, X3 was constant dividend per share plus extra, and X4 was residual dividend policy. A computer package (Statistical Package for Social Sciences- SPSS version 17) was used to aid in analysis of the data collected.

3.6 Validity and reliability

Mugenda and Mugenda (2003) asserted that, the accuracy of data largely depended on the data collection instruments in terms of validity and reliability. Validity as noted by Robinson (2002) is the degree to which result obtained from the analysis of the data actually represents the phenomenon under study. Validity was ensured by having objective data. This was achieved by pre-testing a sample of the information to be used. Reliability on the other hand refers to a measure of the degree to which research instruments yield consistent results (Mugenda & Mugenda, 2003). In this study, reliability was ensured by pre-testing the data with a selected sample from two of the quoted firms at the NSE.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION OF FINDINGS

4.1 Introduction

This chapter focused on data analysis, interpretation and presentation. The researcher made use of frequency tables and percentages to present data. The objective of this study was to determine the relationship between dividend policy and share prices for companies quoted at the NSE. The researcher targeted a sample of 47 respondents from all the companies listed in Nairobi stock exchange out of which 41 responses were obtained. This represented an 87.2% response rate. According to Babbie (2002) any response of 50% and above is adequate for analysis.

4.2 General information

Respondents position in their firms

The researcher requested the respondents to indicate the positions in which they were working in their firms. The results are shown in figure 4.1 below.

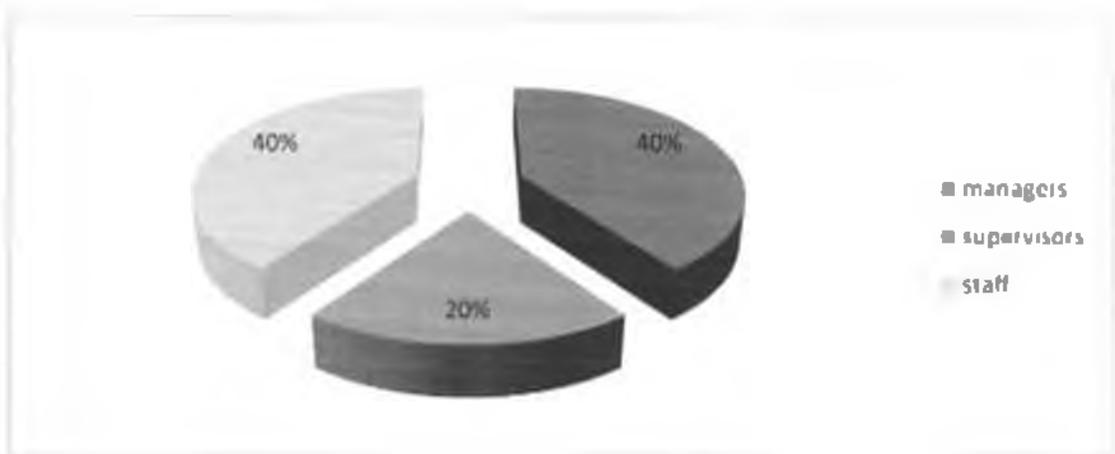


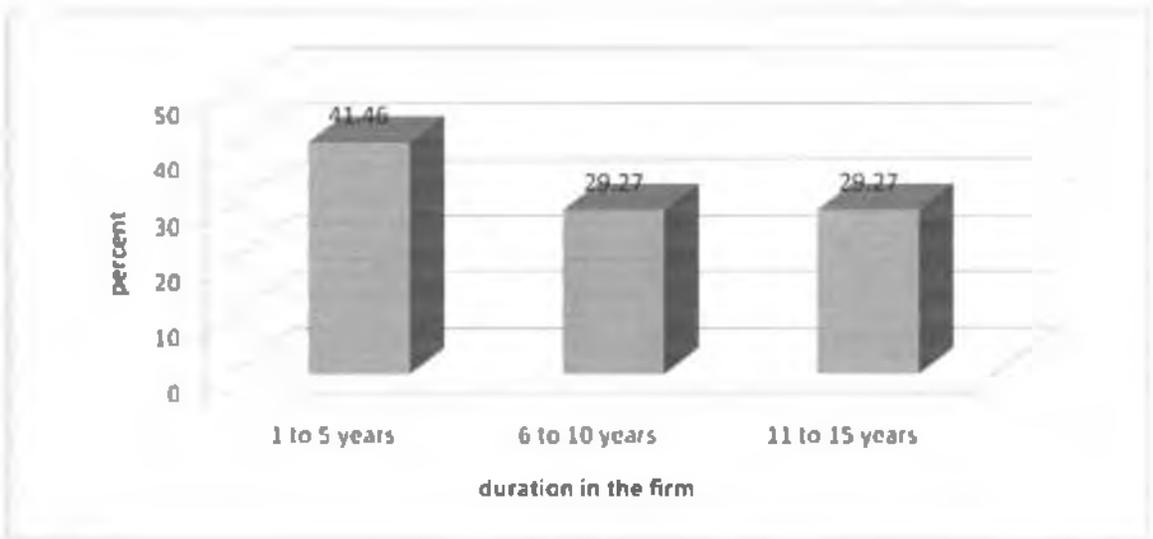
Figure 4. 1: Respondents position in their firms

From the findings as shown by figure 4.1 above, 40% of the respondents indicated that they were working as managers, 20% were working as supervisors, and 40% were

working as staffs. From these findings majority of the respondents were working as supervisors' and managers.

Figure 4. 2: Duration in the firm

The researcher requested the respondents to indicate the duration of time they had spent in their firms. The results are shown in figure 4.2.



On the duration of time the respondents had spent in their firms, 41.46% of the respondents indicated that they had spent between 1 and 5 years, 29.27% had spent between 6 and 10 years and 29.27% had spent between 11 and 15 years. This shows that majority of the respondents had been working in their firms for between 1 and 5 years.

4.3 Payment of dividends

The respondents were asked to indicate whether their firms were paying dividend. The results are shown in figure 4.3.

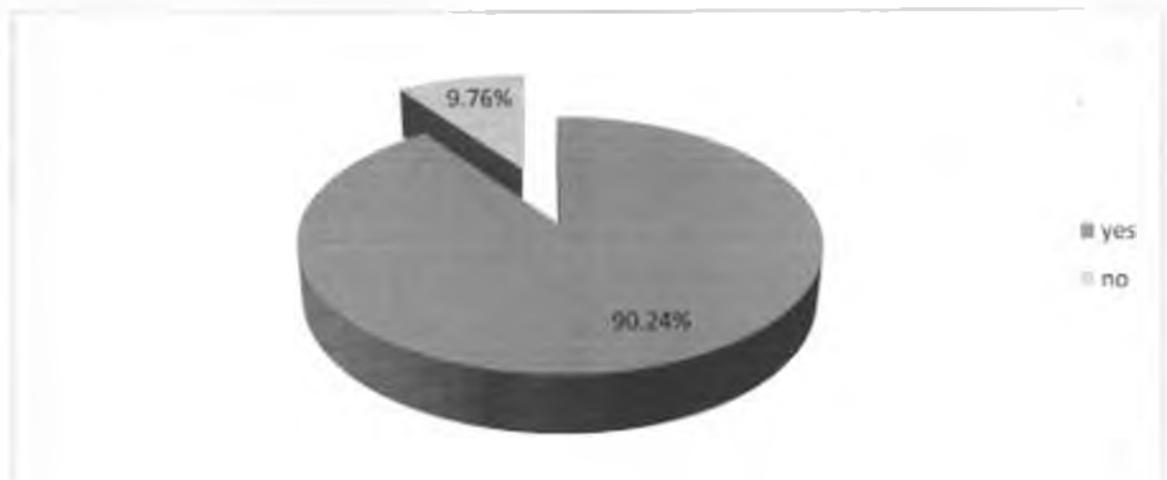


Figure 4. 3: whether the respondents firms were paying dividend

From the findings as shown by figure 4.3 above, 90.24% of the respondents indicated that their firms were paying dividends while 9.76% indicated that their firms were not paying dividends. This clearly shows that majority of the respondents were paying dividend to their shareholders.

Duration taken to pay dividends

From the respondents who indicated that their firms were paying dividends the researcher requested them also to indicate the duration of time taken to pay dividend to their shareholders.

Table 4. 1: Duration taken to pay dividends

| | Frequency | Percent |
|-------------------------|-----------|---------|
| once an year | 10 | 29.3 |
| once in two years | 4 | 9.8 |
| depends with management | 22 | 61.0 |
| Total | 36 | 100.0 |

From the findings as shown by table 4.1 above, 29.3% of the respondents indicated that they were paying dividends to their shareholders once in a year, 9.8% if the respondents

indicate that they were paying dividends once in two years and 61% of the respondents indicated that paying dividends depended with the management. From these findings we can deduce that in majority of the firms were paying dividends which depended with the management.

Defined dividend policy

In an effort to determine whether firms were having defined policy on dividend payment the researcher requested the respondents to indicate whether their firms were using defined policy to pay dividends to their shareholders. The results are shown in figure 4.4 above.

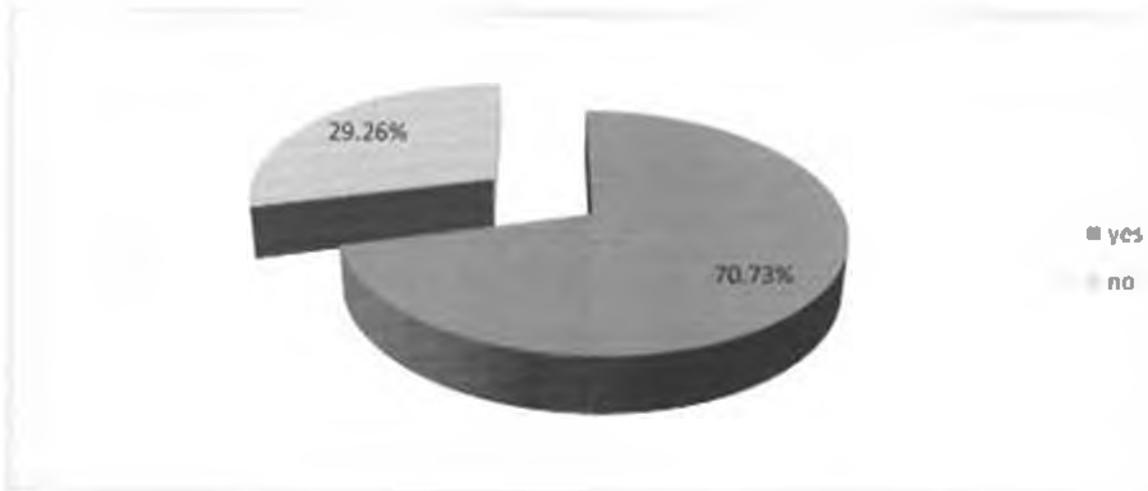


Figure 4. 4: Defined policy on dividend policy

On whether the respondents firms were using defined policy to pay dividend to their shareholders, 70.73% (28 firms) agreed that they were using defined policy while 29.26% (13 firms)disagreed. This shows that majority of the respondents firms had defined dividend policy.

Rating of firms policy on dividend payment

Table 4. 2: Rating of firms policy on dividend payment

| Dividend policy | Mean | Std dev |
|---|------|---------|
| Constant pre-determined percentage of profit is paid e.g. 40% of distributable profit | 1.30 | 0.464 |
| Constant amount is paid per share e.g. Kshs. 2 per share | 2.00 | 1.44 |
| Constant amount per share is paid plus extra amount depending on profitability e.g. Kshs. 2 per share plus 50 cents bonus | 3.20 | 1.64 |
| Dividends are paid only if all investment opportunities that can generate profits have been exhausted | 3.17 | 1.61 |

Table 4.2 above shows the applicability of firm's policy on dividend payment. From the findings the respondents indicated with a mean of 1.30 and a standard deviation 0.464 that the dividend policy "constant pre-determined percentage of profit is paid e.g. 40% of distributable profit" was not applicable. They also indicated with a mean of 2.00 and a standard deviation of 1.44 that "Constant amount is paid per share e.g. Kshs. 2 per share" was least applicable. Dividend policy "constant amount per share is paid plus extra amount depending on profitability e.g. Kshs. 2 per share plus 50 cents bonus" was agreed as applicable with a mean of 3.2 and a standard deviation of 1.64, while "Dividends are paid only if all investment opportunities that can generate profits have been exhausted" was agreed as applicable with a mean of 3.17 and a standard deviation of 1.61.

Whether announcement of dividends influences share prices

In an effort to determine whether the announcement of dividends influence share prices the researcher requested the respondents to indicate whether their firm's announcement of dividend influenced share prices.

Figure 4. 5: Whether announcement of dividends influences share prices

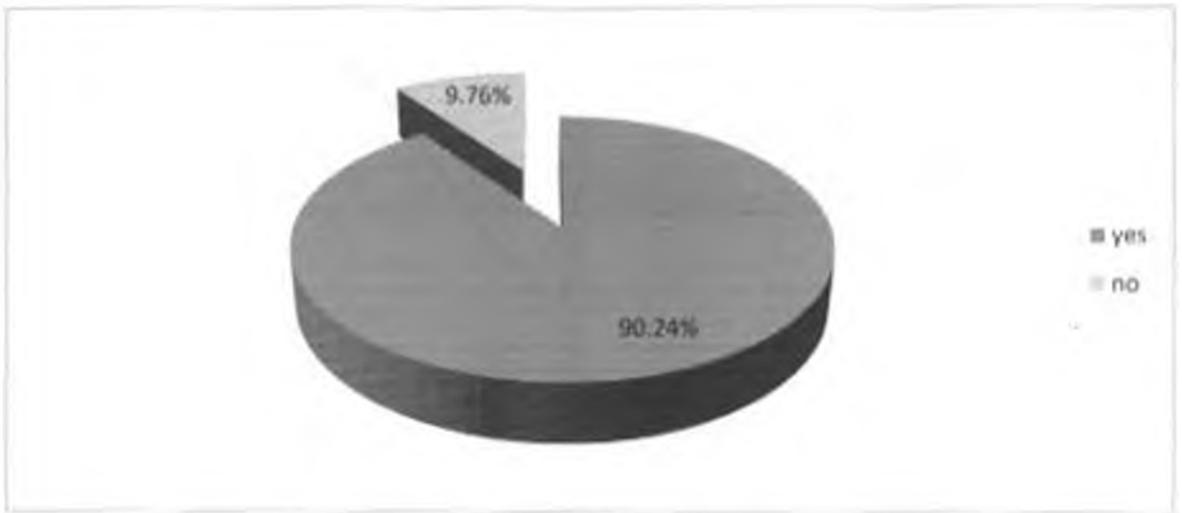


Figure 4.5 above shows the respondents response on whether announcement of dividends influences share prices. From the findings 90.24% of the respondents indicated that announcement of dividends influence share prices in their firms while 9.76% disagreed. This shows that in most of the firms announcement of dividends influenced the share prices.

Duration that announcement of dividends influences share prices

From the respondents who indicated that announcement of dividends influences share prices the researcher requested them to indicate the duration of time the announcement would influence share prices.

Table 4. 3: Duration that announcement of dividends influences share prices

| | Frequency | Percent |
|------------|-----------|---------|
| short term | 37 | 90.2 |
| long term | 4 | 9.8 |
| Total | 41 | 100.0 |

From the findings as shown by table 4.3, 90.2% of the respondents indicated that announcement of dividends had a short term influence on share prices, while 9.8% indicated that announcement of share prices had long term influence on share prices.

From these findings we can deduce that announcement of dividends had a short term influence on share prices.

4.4 Regression analysis

Table 4. 4: Coefficients of regression

| | Unstandardized Coefficients | | Standardized Coefficients | t | Significance. |
|--|-----------------------------|------------|---------------------------|-------|---------------|
| | B | Std. Error | Beta | | |
| (Constant) | 54.356 | 134.215 | | .405 | .690 |
| Constant payout ratio | -2.868 | 17.762 | -.074 | -.161 | .873 |
| Constant amount per share | 14.491 | 7.558 | .424 | 1.917 | .070 |
| Constant dividend per share plus extra | -8.502 | 18.257 | -.244 | -.466 | .647 |
| Residual dividend policy | -1.853 | 13.003 | -.049 | -.143 | .888 |

a Dependent Variable: share prices

The researcher conducted a multiple linear regression analysis so as to determine the relationship between share prices and the three independent variables: constant payout ratio, constant amount per share, constant dividend per share plus extra and residual dividend policy. The regression equation ($\hat{Y} = A + B_1X_1 + B_2X_2 + B_3X_3 + B_4X_4$) was:

$$Y = 54.356 - 2.868X_1 + 14.491X_2 - 8.502X_3 - 1.853X_4 + e$$

Whereby Y = share prices.

X1 = constant payout ratio.

X2 = constant amount per share

X3 = constant dividend per share plus extra.

X_4 residual dividend policy.

According to the regression equation established, taking all factors (constant payout ratio, constant amount per share, constant dividend per share plus extra and residual dividend policy) constant at zero, the share price of a firm will be \$4.356. The data findings analyzed also show that taking all other independent variables constant at zero, a unit increase in the usage of constant payout ratio will lead to a 2.868 decrease in share prices, a unit increase in the usage of constant amount per share will lead to a 14.491 increase in share prices, a unit increase in the usage of constant dividend per share plus extra will lead to a 8.502 decrease in share prices, while a unit increase in the usage of residual dividend policy will lead to a 1.853 decrease in share price. This infers that usage of constant payout ratio; constant dividend per share plus extra and residual dividend policy had a negative relationship with shares prices while usage of constant amount per share had a positive relationship with share prices

4.5 Summary and interpretation of the findings

From the findings of the study majority of the respondents were working in their firms as supervisors and managers which means that information given was reliable. Majority of the firms analyzed were paying dividend to their shareholders and the duration of time depended with the management. The study also realized that most of the firms listed in Nairobi stock exchange were having defined dividend policy.

On the applicability of firms policy's, the study revealed that paying constant amount per share is plus extra amount depending on profitability e.g. Kshs. 2 per share plus 50 cents bonus was the most applicable followed by paying dividends if all investment opportunities that can generate profits have been exhausted. Paying constant amount per share e.g. Kshs. 2 per share was least applicable while paying constant pre-determined percentage of profit e.g. 40% of distributable profit was considered as not applicable. The study also found out that announcement of dividends by a firm had a short term influence on its share prices.

Gitman. (1998) indicated that constant payout ratio policy creates uncertainty to ordinary shareholders especially those who rely on dividend income and they might demand a

higher required rate of return. He also indicated that constant amount per share policy creates certainty and is therefore preferred by shareholders who have a high reliance on dividend income. It protects the firm from periods of low earnings by fixing, DPS at a low level.

In a constant dividend per share plus extra policy a constant DPS is paid every year, however extra dividends are paid in years of supernormal earnings. It gives the firm flexibility to increase dividends when earnings are high and participate in supernormal earnings. The extra dividends are given in such a way that it is not perceived as a commitment by the firm to continue the extra dividend in the future. It is applied by the firms whose earnings are highly volatile e.g agricultural sector (Gitman, 1998).

In residual dividend policy, dividends are paid out of earnings left over after investment decisions have been financed (Gitman, 1998). Dividends will only be paid if there are no profitable investment opportunities available. The policy is consistent with shareholders wealth maximization (Pandey, 2004).

The study revealed that there is a negative relationship between share prices and usage of constant payout ratio; constant dividend per share plus extra and residual dividend policy while usage of constant amount per share had a positive relationship with share price. This shows that an increase in the usage of constant payout ratio; constant dividend per share plus extra and residual dividend policy would lead to a decrease in share prices. An increase in the usage of constant amount per share would lead to an increase in share prices.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

Chapter one of this presented an introduction of the study. This study sought to determine the relationship between dividend policies and share prices for companies quoted at the Nairobi stock exchange. The chapter begins with the background of the study where the researcher presents the meaning of dividend policy and its effect on share prices. This was followed by statement of the problem where the researcher revealed the knowledge gap that motivated him to undertake the study. The objective of the study was to determine the relationship between dividend policy and share prices for companies quoted at the NSI. The chapter also gave an overview of the importance of the study to the management, government, investors, scholars and academicians.

Chapter two of the study presented the literature in the field of dividend policies and the stock market share prices. First, various dividend policies were discussed followed by modes of paying dividends. This chapter also discussed considerations in determining a dividend payout. The chapter also presented dividend policy theories and empirical studies.

Chapter three of this study outlined the methods that were used by the study to achieve its set objectives. This begins with research design where the researcher specified the research design to use in this study. This was followed by target population and data collection. In data collection the researcher specified type of data (secondary and primary) and research tools that were used in the study. Data analysis was also a part of this chapter where the researcher indicated the statistical model to use in the study, methods of analyzing presenting data.

Chapter four focused on data analysis, interpretation and presentation of the findings. The chapter began with an introduction, general information of the respondents' payment of dividends and regression analysis

Chapter five of the study presented summary, conclusions and recommendations of the study. The chapter began with a summary of the study, conclusions, policy recommendations, limitations of the study and suggestions for further studies.

5.2 Conclusion

This study concludes that majority of the respondents interviewed were working as managers and supervisors and had spent duration of between 1 and 5 years in their firms. This study also revealed that firms quoted in Nairobi stock exchange were paying dividend to their shareholders and the duration of time depended with the management. Firms listed in Nairobi stock exchange have defined dividend policy. The study also found that majority of the firms were using defined dividend policy in paying dividend to their shareholders.

On the applicability of firms policy's, this study concludes that paying constant amount per share is plus extra amount depending on profitability e.g. Kshs. 2 per share plus 50 cents bonus is the most applicable followed by paying dividends if all investment opportunities that can generate profits have been exhausted. Paying constant amount per share e.g. Kshs. 2 per share is least applicable. The study also revealed that announcement of dividends by a firm had a short term influence on its share prices.

The study also concludes that there is a negative relationship between share prices and the usage of constant payout ratio; constant dividend per share plus extra and residual dividend policy while usage of constant amount per share had a positive relationship with share price. This shows that an increase in the usage of constant payout ratio; constant dividend per share plus extra and residual dividend policy would lead to a decrease in share prices. An increase in the usage of constant amount per share would lead to an increase in share prices.

5.3 Policy recommendations

This study recommends that firms listed in Nairobi stock exchange should employ a policy of paying constant amount per share e.g. Kshs. 2 per share. This study revealed that paying constant amount per share was the most suitable of all the four policies

analyzed. Constant amount per share is fixed in amount irrespective of the earnings levels. This creates certainty and is therefore preferred by shareholders who have a high reliance on dividend income. It protects the firm from periods of low earnings by fixing constant amount per share at a low level.

To the government of Kenya this study recommends that it should form policies that protect shareholders from exploitation by firms' management. If a firm was to use a constant payout ratio policy it would create uncertainty to ordinary shareholders especially those who rely on dividend income and they might demand a higher required rate of return.

To the investor this study recommends that they should invest in the firms that pay constant amount per share amount.

To the management of the firms, the study recommends that they should adopt a constant payout ration for wealth maximization in their firms. In constant payout ratio dividend per share fluctuate as the earnings per share changes. Dividends are directly dependent on the firm's earnings ability and if no profits are made then, no dividends are paid.

5.4 Limitations of the study

As a part time student who needs to balance with studies with full time employment, the researcher was not be able to undertake an extensive and exhaustive research limiting the researcher to less research time.

The researcher was a self-sponsored student relying on savings to progress his studies and therefore there was limitation on financial resources. The researcher however resolved to use one research tool to get data from the respondents; the questionnaires

There were challenges during data collection where some target respondents failed to give required information. The researcher however worked at winning the confidence of those involved in this research by giving them the reasons for the research and assuring them of confidentiality.

5.5 Suggestions for further research

From the study and related conclusions, the researcher recommends further research should be done in the area of factors affecting share prices of firms quoted at the Nairobi Stock Exchange. This is because this study focused on the relationship between dividend policy and share prices of firms quoted at the Nairobi Stock Exchange while there are other factors apart from dividend policy that affect share prices.

The research also recommends that further studies needs to be done on the effectiveness of using defined dividend policy in firms quoted in Nairobi stock exchange. This study concentrated on the relationship between dividend policy and share prices and hence a gap was left on how effective the dividend policies were in firms quoted in Nairobi stock exchange.

The researcher further recommends that further studies needs to be done on the modes of paying dividends to shareholders used by firms quoted in Nairobi stock exchange. This study focused on the dividend policies used in firms quoted in Nairobi stock exchange and hence it did not investigate the modes of paying dividends used by firms quoted in Nairobi stock exchange.

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APPENDICES

Appendix I: Questionnaire

1. Kindly indicate the name of the firm
2. What is your position in the firm?
Manager []
Supervisor []
Staff []
Other (kindly specify).....
3. For how long have you been with the firm?
1-5 years []
6-10 years []
11-15 years []
16 years and above []
4. Does this firm pay out dividends?
Yes [] No []
5. If yes in 4 above, how often?
Once a year []
Once in 2 years []
It depends with management []
Any other (specify)
6. Does the firm have a defined policy on dividend payment?
Yes [] No []

Appendix II: Listed Companies at the NSE

Agriculture

1. Rea Vipingo Ltd
2. Sasini Tea & Coffee Ltd.
3. Kakuzi Ltd.

Commercial and Services

1. Access Kenya Group
2. Marshalls E.A. Ltd.
3. Car & General Ltd.
4. Hutchings Biemer Ltd **Suspended**
5. Kenya Airways Ltd.
6. CMC Holdings Ltd.
7. Uchumi Supermarkets Ltd. **Suspended**
8. Nation Media Group Ltd.
9. TPS (Serena) Ltd.
10. ScanGroup Ltd.
11. Standard Group Ltd.
12. Safaricom Ltd.

Finance and Investment

1. Barclays Bank of Kenya Ltd.
2. CFC Stanbic Bank Ltd.
3. Housing Finance Ltd.
4. Centum Investment Ltd.
5. Kenya Commercial Bank Ltd.
6. National Bank of Kenya Ltd.
7. Pan Africa Insurance Holdings Co. Ltd
8. Diamond Trust Bank of Kenya Ltd.

9. Jubilee Insurance Co. Ltd
10. Standard Chartered Bank Ltd
11. NIC Bank Ltd.
12. Equity Bank Ltd.
13. Olympia Capital Holdings Ltd
14. The Co-operative Bank of Kenya Ltd.
15. Kenya Re-Insurance Ltd

Industrial and Allied

1. Athi River Mining Ltd.
2. BOC Kenya Ltd.
3. British American Tobacco Kenya Ltd.
4. Carbacid Investments Ltd. .
5. F.A. Cables Ltd.
6. E.A. Breweries Ltd.
7. Sameer Africa Ltd.
8. Kenya Oil Ltd.
9. Mumias Sugar Company Ltd.
10. Unga Group Ltd.
11. Bamburi Cement Ltd.
12. Crown berger (K) Ltd.
13. E.A Portland Cement Co. Ltd.
14. Kenya Power & Lighting Co. Ltd.
15. Total Kenya Ltd.
16. Eveready East Africa Ltd.
17. Kengen Ltd.