RELATIONSHIP BETWEEN SHAREHOLDERS DISPERSION, FIRM SIZE AND DIVIDEND POLICY OF FIRMS QUOTED AT THE NSE

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DECLARATION

This research project is my original work and has not been presented for conferment of degree in any university.

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DEDICATION

I dedicate this work to my dear wife Jane for her support and encouragement, and to my beloved daughter Grace for her exemplary joy and happiness. My Parents Sammy and Joyce for their determination to see me through university, inspiration and encouragement.
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ABSTRACT

This study analyses the relationship between the dividend payout ratio, firm size and the shareholders dispersion using sample of firms which are listed at the Nairobi Stock exchange (NSE) for the period 2005 to 2010. The study uses a sample of 31 firms out of the total 55 firms listed at the NSE by December 2010. The sampled firms consistently paid dividends to the shareholders over the period of the study. The study also tested whether the DPOR of the firms listed at the NSE support various existing dividend payout policy theories. Secondary data was obtained from the NSE secretariat, internet and company financial statements. The data was analyzed appropriately and the shareholders dispersion was calculated by dividing the number of shareholders by the total shares for each company. The average DPOR was calculated, as well as the natural log of the average market capitalization for each firm.

Parametric analysis was done and regression was performed on the various variables and the findings analyzed using descriptive statistics and regression, which are also presented in tables and charts. The $R^2$ from the regression is 23% in the estimated model coefficients, the p-values were greater than .05 at 95% confidence interval. This implies that the firm size and the shareholders dispersion do not have a significant influence to the DPOR. Hence the results suggested a stronger relationship between the shareholders dispersion and the dividend payout ratio than the market capitalization and the dividend Payout ratio.

High dividend payout ratio is a sign of higher firm value, hence the firm value is an increasing function of the dividend payout ratio. Most of the firms with high capitalization paid relatively higher dividends although this varied according to the sectors. This is an indication that the firms with low capitalization reinvested most of the earnings rather than payment of dividends to shareholders. This is evidenced by the firms under the commercial and services sector which recorded the highest growth in capitalization, however the dividend payout ratio remained relatively stable and low. The findings weakly support the agency cost theory , hence the dividend payout ratio is positively related to the dispersion of shareholders although in a weak form according to the findings of this study.
CHAPTER ONE

1.0 INTRODUCTION

1.1 Background to the study
Investors have got diversified reasons for investing in certain firms, however it is the expectation of the investors to maximize and earn returns which are adequate to justify the investment. Returns to shareholders may take different forms including receiving dividends, which is the distribution of firms’ value to shareholders (Tajirian 2006). A dividend can also be defined as a distribution of a portion of a company's earnings, which is determined by the board of directors to its shareholders. The dividend is quoted in terms of the amount each share receives (dividends per share). It can also be quoted in terms of a percent of the current market price, referred to as dividend yield. Thus a dividend policy is a set of company rules and guidelines used to decide how much the company will pay out to its shareholders as dividends within a given period. Black (1976) posited that empirical evidence on the cooperate dividend policy adopted by companies “seems like puzzle with pieces that just don’t fit together”.

Dividends could be in various forms including cash dividends, which are paid out in the form of cash; Stock dividends (Rolbein 1939) which are dividends paid out in form of additional stock shares (Tajiriani 1997) of the issuing corporation, or other corporation (such as its subsidiary corporation). They are usually issued in proportion to shares owned (for example, for every 100 shares of stock owned, 5% stock dividend will yield 5 extra shares). If this payment involves the issue of new shares, this is very similar to a stock split in that it increases the total number of shares while lowering the price of each share and does not change the market capitalization or the total value of the shares held. Property dividends are dividends paid out in the form of assets from the issuing corporation or another corporation, such as a subsidiary corporation. They are relatively rare and most frequently are securities of other companies owned by the issuer, however they can take other forms, such as products and services. According to Lee (2009) Companies adopt different Dividend payout ratio (DPR) which is normally the portion of the dividend paid by a firm on the net income per share or earnings per share (EPS).
Kenya has Nairobi Stock Exchange (NSE) which has 55 listed companies, and provides a market that deals in the exchange of securities issued by publicly quoted companies and the Government in Kenya. The major role of the stock exchange is to promote a culture of thrift, or saving. Therefore the stock exchange assists in the transfer of savings to investment in productive enterprises. It also assists in the rational and efficient allocation of capital. Also the stock markets promote higher standards of accounting, resource management and transparency in the management of business.

The stock exchange improves the access to finance of different types of users by providing the flexibility for customization, hence making it possible for different users of capital to raise capital in ways that are suited to meeting their specific needs. The exchange provides investors with an efficient mechanism to liquidate their investments in securities. There are three investment market segments at the NSE Exchange namely: Main Investment Market Segment (MIMS); Alternative Investment Market Segment (AIMS); and the Fixed Income securities Market Segment (FISMS). The alternative investment market segment has less regulations and requirement applicable to the companies listed under the AIM.

NSE provides access to finance for new and smaller companies through the Alternative Investments Market Segment (AIMS). This can also be realised through Venture Capital institutions which are fast becoming key players in financing small businesses. The exchange has also provided encouragement of public floatation of private companies which in turn allows greater growth and increase of the supply of assets available for long-term investment. The establishment of an efficient stock market is therefore, indispensable for any economy that is keen on using scarce capital resources to achieve economic growth, hence the NSE provide the required environment to companies in Kenya.

The companies listed in the NSE differ in terms of market capitalization, hence we have large companies as well as small companies listed. These offer opportunity to investors who want to invest in securities to access the market. Many investors tend to invest without proper analysis of the returns expected or the main reason for the investment i.e. If the main reason is receiving dividends or capital gain. Hence at times such investors end up earning returns which are below
their expectation or lose on their investment. With this research it would be possible to provide advice to the investors on the firms which they can invest depending on their expectation.

Conventionally small firms normally would adopt low DPR or pay low dividends while the large companies would pay high dividends. Firm with high dispersion or spread on shareholders adopt payment of high dividends.

There has been some school of thought that advances the position that companies that are growing and with growth opportunities adopts low DPR and reserve more of their earnings for future growth which are expected to increase their earnings in future and vice versa. This mean that there is a relationship between the size of the firm and the DPR.

The size of the firm refers to the company’s market capitalization (Al-Kuwari 2009), or the aggregate value of a company or stock. It is obtained by multiplying the number of shares outstanding by their current price per share. Companies could have Large-cap, small-cap and mid-cap stocks and all perform differently. Many studies have shown that small firms (capitalization or assets) tend to outperform large ones. Other studies have argued that it is not the size that matters, but it is the attention and number of analysts that follow the stock.

The size of the firm will be measured as the natural log of the six-year (2005-2010) average of firms market capitalization. Chen and Dhiensiri (2009) use a similar proxy for size. The natural log of capitalization corrects for scale effects by treating as equal the same percentage variation rather than the same numeric variation. A positive relationship is expected between SIZE and dividend pay-out ration because larger firms face lower issuing costs and higher agency costs.

Shareholders dispersion is spread of companies ownership and relates to the total number of shares issued by a company against the total number of shareholders. Ownership dispersion is calculated as the number of shareholders divided by total outstanding shares in 2010. According to the agency theory, the more dispersed the ownership structure, the more severe the agency problems and thus the need for monitoring managers also increases. A positive relationship between DPR and shareholders dispersion is expected. According to Chen et.al (2009)
monitoring managers behaviour is more difficult when the ownership is widely dispersed. This is costly for shareholders, and the problem of collective action inhibits it. A monitor—shareholder would incur the full costs of monitoring, but he would reap gains only in proportion to his holdings. Monitoring activity would be more effective if there were some agent who monitors managers on shareholders behalf.

In a similar study by Chen and Dhiaensiri (2009) using sample of firms listed on New Zealand Stock Exchange (NZSE) found out that ownership dispersion is positively related to the degree of ownership. The study found a partly consistent relationship between the POR and the transaction cost and residual theory or the firm size.

Dividend payout ratio is the fraction of net income a firm pays to its stockholders in dividends (Tajiriani 1997), Investors seeking high current income and limited capital growth prefer companies with high Dividend payout ratio. However investors seeking capital growth may prefer lower payout ratio because capital gains are taxed at a lower rate. High growth firms in early life generally have low or zero payout ratios. As they mature, they tend to return more of the earnings back to investors.

The decision to distribute dividends is thus assumed to be explained not by the earnings of the firm but the combination of current distributed earnings, size of the firm and the dispersion of the shareholders. There is however ample empirical evidence indicating that firms prefer and financial markets expect a certain degree of stability in dividend payments (lintner 1956).

1.2 Statement of the problem

Companies adopt different dividend policies hence different dividend payout ratios depending on different parameters relating to the companies and the various stakeholders interests. Generally it is expected that growth companies with expansion opportunities are likely to adopt low DPR as they are likely to reinvest the funds to the growth opportunities or investments. This is not usually the case in most companies and they may adopt dividend policies which are diverse and may differ from one company to another.
Rozeff (1982) presents evidence that the dividend payout level for unregulated firms is negatively related to its level of insider holdings. One signaling interpretation of his result is that firms with higher levels of insider holdings have less need to signal firm value through dividends. Also he argues that if past or anticipated future growth is rapid, then managers tend to conserve funds for reinvestment by establishing a lower pay-out ratio. This hence influences the firms value.

Hansen et al. (1994) concluded that dividend payout ratios of electric utilities respond in much the same fashion as unregulated firms when the concentration of ownership changes. Their findings suggest that as the concentration of ownership increases, the level of monitoring increases and the need for a higher dividend payout decreases.

Javid and Ahmed (2009) in their study on dynamics and determinants of dividend policy in Pakistan concluded that, the market capitalization and size of the firms have the negative impact on dividend payout policy which shows that the firms prefer to invest in their assets rather than pay dividends to their shareholders. The results show that there is a negative and significant relationship between dividend payout and size. This result shows that large-sized firms prefer to pay less dividend. According to Chen and Dhiensiri (2009) there is a positive relationship between size and dividend pay-out ratio because larger firms face lower issuing costs and higher agency costs as well as dividend payout ratio is positively related to the degree of ownership dispersion. The study was done in New Zealand for companies which were listed in the New Zealand Stock Exchange (NZSE), hence need for the study targeting firms listed in the Nairobi Stock Exchange (NSE).

Different studies have come up with different conclusions regarding dividend policy and its determinants. A research carried out by Bitok (2004) on the effect of dividend policy on the value of the firms quoted at the Nairobi Stock Exchange, had the objective of the study was to establish the effect of the dividend policy on the value of the firms quoted at the Nairobi stock exchange (NSE). The study which covered the period 1998 to 2003, found that there is a relationship between the dividend payout ratio (DPR) and the value of the firm. The study
considered only one variable, hence need to have more studies which factor in more variables which influence the DPOR of listed firms at the NSE. Hence this study includes the shareholders dispersion as possibly influencing the DPOR for listed firms.

The size of the firm is likely to influence the DPR adopted by various firms or companies. Shareholders dispersion is also a determinant of firms DPR hence a positive relationship is expected with the dividend policy adopted. The research project therefore is meant to contribute to the knowledge gap regarding the two aspects which may determine the DPR among the listed companies at the NSE.

The studies reviewed were not consistent in the conclusion on the relationship between the various variables determining the DPOR for the companies listed at the Various stock exchanges. The various studies reviewed provides a unclear guide to investors whether a relationship exist between the variables to be studied. Hence the study provides the relationship between the variables in Kenya, which can be used in decision making by various stakeholders. Some studies especially from the developed markets indicate that ownership structure seems to be the most important determinant of dividend policy E.g. NZSE firms. According to Chen and Dhiensiri (2009) NZSE firms tend to have a high dividend payout ratio when they have high ownership dispersion. They tend to have a lower dividend payout ratio when they have high degree of insider ownership. This may not be the same for the developing markets, hence need for a study targeting the developing markets.

1.3 Objective of the study

The objective of the study was to establish the relationship between the shareholders dispersion, size of firm and the dividend policy adopted by various companies listed at the NSE. The study endeavored to establish the DPOR adopted by companies listed at the NSE as well as the trend of the market capitalization and the payout ratio for the firms quoted at the NSE.

1.4 Significance of the study

Individual Investors; The study will enable investors to use the model developed to consider which firms to invest depending on the investor expectation. This will therefore be possible to
establish the category of firms which consistently adopt high DPR hence if the investor can easily be guided as they make their investment decisions.

Corporate Managers; The study will also establish which category of firms adopts high DPR, hence the companies can use the information so as to remain competitive in the market especially if at one point they may want to raise capital. The study findings can help managers of the firms listed at NSE and unlisted firms to understand the dividend policy followed by well-established corporations and the new firms. The companies could be following a stable or semi-stable DPOR strategy. Hence this can help the Managers make appropriate decisions that maximize the shareholders wealth as well as plan for the future growth considering the dividend policy to adopt.

Academics and Scholars; The study will add to the body of knowledge in the finance discipline and form a basis for further research especially in the Kenya context or developing countries. This can be through additional variables which could be included in determining the dividend POR.

Investment/Financial advisors; The investment advisors can use the findings of the study to advice their clients on which companies to invest in order to meet their expectation. If the highly dispersed companies in terms of ownership pay higher dividends then the clients or investors would be appropriately advised.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

Empirical evidence and the literature review both the international and the local studies were reviewed. This sought to establish the landmark conclusions on the relationship between DPOR, Shareholders dispersion and the size of the firm as well as the dividend policy puzzle and various contributions to the study of the dividend policy by different scholars. The theories reviewed include the Dividend agency theory, dividends signaling theory and the transaction cost and residual theory of dividends.

2.2 Review of theories

The dividends agency theory, dividend signaling theory and the dividends transaction cost and residual theory provide guidance to the study on the relationship between DPR and various parameters determining dividend policy especially shareholders dispersion and size of firm.

2.2.1 Agency theory of dividends

Jensen and Meckling (1976) advanced the agency theory to explain dividend relevance. They show that agency costs could arise if management serves its own interests and not those of outside shareholders. Other studies such as Rozell (1982) extended agency theory as applied to dividend policy. According to the agency costs explanation of dividends, paying dividends forces a company to seek more external financing for its investments. This subjects the company to the scrutiny of the capital market for new funds, thus reducing the possibility of suboptimal investment. Monitoring by outside suppliers of capital also helps to ensure that managers act in the best interest of outside shareholders. Thus, dividend payments may serve as a means of monitoring or bonding management performance. Hence the higher the dispersion the higher the monitoring by the shareholders. Also The higher the collateralisable assets the less likely bondholders will impose severe restrictions on the firm’s dividend policy, and hence, this will lead to a higher level of dividend payments (Chen and Dhiensiri 2009).
2.2.2 Dividends Signaling theory
Under the dividend signaling theory, higher firm value is signaled by higher dividends. Therefore, under the signaling paradigm, dividend increases should result in positive abnormal returns on the announcement of dividends. Also, ceteris paribus, the value of the firm should be an increasing function of the dividend according to Bhattacharyya (1979).

2.2.3 Transaction cost and residual theory of dividends
According to Chen and Dhiensiri (2009), Firms that have low transaction costs of equity or debt issuance may be more inclined to distribute cash dividends than firms that have high transaction costs. Furthermore, a firm will pay dividends when its internally generated funds are not completely used up for investment purposes, and when it experiences low growth where it usually does not need large investment requirements. Previous studies use the firm’s size, the firm’s beta, past growth and future growth as the proxies for the transaction costs and residual theory of dividends. A positive relationship is expected between size and dividend pay-out ratio because larger firms face lower issuing costs and higher agency costs.

Miller and Modigliani (1961) suggest that dividend policy has no effect on the value of the corporation in a world without taxes, transaction costs, or other market imperfections. However, dividends may be relevant to the ex-tent that market imperfections exist. Some of the explanations for dividend relevance include signaling and clientele effects.

2.3 Review of Empirical studies
Lintner’s classic 1956 study found that major changes in earnings ‘out of line’ with existing dividend rates were the most important determinant of company’s dividend decisions. However, because these managers believe that shareholders preferred a steady stream of dividends, firms tended to make periodic partial adjustments towards a target payout ratio rather than dramatic changes in payout. Thus in the short run, dividends were smoothed in an effort to avoid frequent changes. The study showed that there are four major dividend’s policy determinants considered most important. I.e. The anticipated level of firm’s future earnings, Pattern of past dividends, the availability of cash (liquidity), and Maintaining or increasing stock price.
A firm should avoid making changes in its dividends rate that might soon have to be reversed and should strive to maintain an uninterrupted record of dividend payments. A firm should have a target payout ratio and should periodically adjust the payout toward the target. Managers have access to information about the firm’s expected cash flows that cannot be communicated credibly by other means. With some exceptions, empirical studies indicate that dividend changes convey some unanticipated information to the market. From the study it is evident that dividend payments provide a ‘signaling device’ of future company prospects and that the market uses dividend announcements as information for assessing security value. Reasons for dividend policy changes should be adequately disclosed to investors. Two possible reasons for formation of clienteles are different perceptions of relative riskiness of dividends and retained earnings and different investor tax brackets. Although research evidence is mixed it does lean toward the existence of clientele effects. Regulation creates incentives for management to adopt a different payout policy than non-regulated firms.

Black (1976) in journal of portfolio management article titled “The dividend puzzle” reviewed on why companies pay dividends and why investors pay attention to dividends. He concluded that with taxation investors and corporations are no longer indifferent to the level of dividend. They prefer smaller dividends or no dividends at all.

Transaction costs also do not tell us much about why corporations pay dividends. He also concluded that dividend changes often tell us things about the corporations, making them does not explain why corporations pay dividends. Creditors would also presumably agree to give better terms on company’s credit if no dividends are paid especially if the company is facing financial problems. The fact that Cutting Dividends is a low-cost way to raise capital is another reason to expect corporations not to pay dividends. It is also impossible to tell whether Investors demand dividends or not. So it is hard for a corporation to decide whether to eliminate it dividend or not. Dividend payments on the portfolio implications are that corporations can not tell what dividend policy to choose because they do not know how many irrational investors there are. A rational investor can choose dividend policy for his portfolio that will maximize his after-tax expected return for a given level of risk. Perhaps a taxable investor especially one who is in a high tax bracket should emphasize low-dividend stock and perhaps a tax-exempt investors should emphasize high dividend stocks. Fischer, after reviewing various dividend policies and
reasons for dividend payout stated that, “the harder we look at the dividend picture, the more it seems like a puzzle, with pieces that just don’t fit together”

LitzenBerger and Ramaswany (1979, 1981) advanced the leftists proposition that whenever dividends are taxed more heavily than capital gains firms should pay the lowest cash dividend they can get away with. Little to no dividend payout is more favorable for investors since taxation on dividend is higher than that of capital gains. Firms that re-invest funds rather than paying dividends will increase value of the firm as a whole hence the market value of stock.

Baker et al, (1985) In their study of management views on dividend policy, compared the determinants of dividend policy today with lintner’s behavioral model of corporate dividend policy and to assess managements agreement with lintner’s findings, examined managements perception of signaling and clientele effects, and determined whether managers in different industries share similar views about the determinants of dividend policy. The study involved a total of 562 firms listed in NYSE from three industry groups: utility (150), manufacturing (309), and whole-sale/retail (103). A mail questionnaire was used to collect the data. In summary results from this study showed that the major determinants of dividend payment today appear strikingly similar to lintner’s behavioral model during the mid 1950’s, in particular respondents were highly concerned with dividend continuity. Second, the respondents seem to believe that dividend policy affects share value, as evidenced by importance attached to dividend policy in maintaining or increasing stock price. Although the survey does not uncover the exact reasons for dividend relevance, it does provide evidence that the respondents are generally aware of signaling and clientele effects. The results suggest that managers of regulated firms have a somewhat different view of the world than managers operating in a competitive environment. Thus, it may be worth while to segregate regulated from non-regulated firms when examining dividend policy.

Graham and Dodd (1951), in their research concluded that stock market is overwhelmingly in favour of liberal dividends as against niggardly ones. The common stock investor must take this judgment into account in the valuation of common stock for purchase. It is now becoming
standard practice to evaluate common stock by applying one multiplier to the portion of earnings paid out in dividends and much smaller multiplier to the undistributed balance.

Gordon and Lintner (1996) – Bird in the hand theory argued that shareholders are risk averse and they prefer certainty. Dividends payments are more certain than capital gains which rely on demand and supply forces to determine share price. Therefore one bird in the hand (certain dividend) is better than two birds in the bush (uncertain capital gains). Therefore a firm paying high dividends will have a high value since shareholders will require to use lower discounting rates. However MM reacted by viewing the bird at hand theory as a fallacy. They argued that a firm’s retention of profit does not promise appreciation in future but immediately. The firm’s cash flow is what determines rise or fall in share price.

Miltra and Owners (1995) examined the informational content of dividend initiation announcement in the context of the firms’ information environment by analyzing the price response to dividend initiation and then related that response to different information environment. Finally, they examined the magnitude of abnormal returns (AR) as well as the volatility of returns around the dividend initiation announcements. To give an equivocal answer to their three fold question, they used data from Greece that has totally/entirely different institutional environment regarding the distribution of corporate profits compared to the markets of U.S.A, Canada, the U.K. and other European countries where the majority of the studies are focused. In particularly in Greece, where there are no taxes on dividends and capital gains, the distribution of corporate dividends is mandatory as long as there are net earnings. Their result demonstrated that dividend initiation announcement is trustworthy mechanisms to convey information about the firms’ future prospects. Once announced dividend initiations are associated with risk in shareholders’ wealth through stock price increase. The returns were comparable to the ones found in other similar studies. Moreover, they noted that the association between divided initiation and abnormal return appears to be much stronger for the ‘low’ information environment firms than for ‘high’ group. Similarly, they proxy the information announcement with the market capitalization and found that firms with smaller size demonstrated higher abnormal returns.
Many other empirical studies have investigated whether dividend contains information. For instance Petit (1972) found that dividend announcement do convey valuable information. However, Watts (1973) came to the opposite conclusion claiming that unexpected dividend changes communicate no information beyond the one reflected in other contemporaneous

Baker (1999) carried out a study to examine respondent’s view about four explanations for paying dividends and 20 factors influencing dividend policy in regulated and unregulated firms. The results suggest that all the four explanations for paying dividends (signaling, bird in the hand, tax preference, and agency costs) receive some support, but the signaling explanation received more support than other explanations. The evidence, like that done by N. Bhattacharyya, suggests that the most important determinants of a company’s dividend policy were the level of current and expected future earnings and the pattern or continuity of past dividends. These factors have remained remarkably similar over time. Finally regulated and unregulated companies rank factors influencing dividend policy more similar today than in the past.

Bhattacharya (2000) explains dividend policy by using the asymmetric information paradigm. However unlike the signaling models (where the informed manager/insider uses the dividend as signaling device) he posits dividend policy as a component of a screening contract set up by an uninformed principal. In signaling models, hidden information is the source of informational asymmetry. In the dissertation, he uses a richer source of informational asymmetry – that due to moral hazard (because the effort exerted by agent is not observable) and that due to hidden information (because the productivity of the agent is not observable) he assumes that the manager wants to maximize his net wealth and the principal recognizes this and sets up a discriminating contract to utilize the skill of the agent in the productive enterprise.

He found that contrary to the findings of dividend models based on the signaling paradigm, dividend payment is conditional on cash availability and bears an inverse relationship to managerial type. That is for a given level of available cash, the manager with lower productivity declares a higher dividend than that declared by a manager with higher productivity. He concludes that his model can be used to explain many of the empirical findings obtained by other researchers.
George and Bob (2002) dividend policy theories and their empirical tests, separated theoretical and empirical models into different taxonomy. The qualifying criterion is the nature of market structure and the underlying rationale of the investor. Accordingly the models are categorized into three, i.e. Models formulated with full information, with information asymmetries and using behavioral principles. Models formulated with Full Information Models surmise that investors require secure higher expected returns shares of dividend-paying stocks. The imposition of a tax liability on dividends causes the dividend payment to be grossed up to increase the shareholder’s pre-tax return. Under capital asset pricing theory, investors offer a lower price for the shares because of the future tax liability of the dividend payment.

Models of Information Asymmetries surmise that the market imperfection of asymmetric information is the basis for three distinct efforts to explain corporate dividend policy. The mitigation of the information asymmetries between managers and owners via unexpected changes in dividend policy is the cornerstone of dividend signaling models. Agency cost theory uses dividend policy to better align the interests of shareholders and corporate managers. The free cash flow hypothesis is an ad hoc combination of the signaling and agency costs paradigms; the payment of dividends can decrease the level of funds available for perquisite consumption by corporate managers. The Agency Cost recognizes potential agency costs associated with the separation of management and ownership, The Free Cash Flow Hypothesis argues that prudent managers working in the shareholders’ best interests should invest in all profitable opportunities.

John and Alok (2004), Researched on whether dividend clienteles exist. In their paper they used the investment accounts of more than 60,000 retail investors at a large U.S. discount brokerage house during the 1991-96 time-periods to search for direct evidence of dividend clienteles. First, they examined portfolio holdings. They found that, as a group, retail investors prefer non-dividend paying stocks over dividend paying stocks. However, cross-sectional within the retail investor group, older and low income investors prefer dividend paying stocks over non-dividend paying stocks.
They investigated the relation between retail investor characteristics and dividend preferences. For holdings of dividend-paying stocks, they identified a preference for dividend yield that increases with age (consistent with life-cycle or consumption preferences) and decreases with income (consistent with low-tax investors holding high-yield stocks). In addition, dividend preferences vary in a manner consistent with tax preferences. When taxes are likely to be a major concern (e.g. younger investors), a greater proportion of high dividend stocks are held in tax-deferred accounts. In contrast, when taxes are of minimal concern (e.g., older investors) but income provided by dividends might be particularly important, investors’ dividend preferences in taxable and tax-deferred accounts are indistinguishable. Finally, they also found (somewhat weaker) evidence that risk averse investors hold higher dividend yield stocks.

Franklin and Roni (2002), the study objective was to determine the form of payment the payout policies should take. The study was conducted in UK and USA, the findings were that initially dividends constituted the vast majority of corporate payouts but since the mid 1980’s repurchases have become increasingly important. Both dividends and repurchases have similar effects in terms of the sign of the impact, initiation of dividends, dividend increases or repurchases are all taken as good news by the market the difference is that repurchases are large in size relative to dividend increases or initiations and their impacts on the prices is more pronounced.

Petternden and Twite (2004) in their study on Taxes and Dividend policy under Alternative Tax regimes in Australia, sought to determine how alternative tax framework influence dividend policy. The sample period of the study was from January 1982 to December 1997, because during this period there was a change in Australian tax systems. The sample firms consisted of firms selected across all industry sectors. The population consisted of all firms quoted in Australian stock exchange. In the analysis, time series behavior of dividend policy around the introduction of dividend imputation was analyzed. The cross sectional relationship between gross dividend payout and effective corporate tax was analyzed to include the firm’s corporate tax rate as an explanatory variable.
The result of the study by Petternden and Twite (2004) was that the number of firms offering dividend re-investment plans increased after the introduction of dividend imputation in 1987. It was also observed that there was a large increase in the number of firms paying special and scrip dividends in 1989. This is consistent with firm catering to the increased demand for the distribution of Imputation tax credit following the inclusion of pension funds in the Imputation tax system in 1988. There was also a decline in the number of firms offering bonus share plans after 1989. This can be attributed to differences in taxation of dividend reinvestment and bonus share plans. This is because for tax purposes bonus share plans are a return of capital, subject to capital gains tax. After 1987, all dividends payout rose consistent with the preference for the distribution of franked dividends. Taken in conjunction with the decline in active dividend reinvestment plans, this is suggestive of a decline in funding demand over the sample of industrial plans. There was an increase in dividend payout ratio with the introduction of a dividend Imputation tax system.

The gross and regular dividends payouts were positively associated with asset tangibility and negatively associated with profitability and leverage under the both classical and dividend Imputation tax regimes. In conclusion, the introduction of a dividend Imputation system in Australia represented a significant change to the tax framework which led to a change in corporate dividend policy.

Dasilas and Lyrondi (2009) in a research paper to investigate the impact of dividend initiations on shareholders wealth sampled 38 listed Greek firms. In their sample selection methodology and testable hypothesis, similar to the Alargar and Bathala (1999), they defined dividend initiation as a first time regular cash dividend payment in the firms’ history or the resumption of a dividend after a hiatus of at least three years. To ensure that dividend initiation represents a stable dividend policy, they imposed further restriction that, once initiated, regular dividend payments must continue for at least one year. Dividend per share data, closing stock prices and the announcement dates were extracted from the dissemination information department of the Athens stock exchange. To estimate the stock price response to dividend initiation announcements they calculated the log returns because of the theoretical superiority when linking together sub period returns to form returns over longer periods (Strong, 1992).
Farida (1993) carried out a study to identify the factors which are most important in the determination of dividends among Kenyan firms. The population under study was made up of all companies quoted at the Nairobi Stock Exchange as at December 1992. From this population a sample of companies which had been continuously quoted for 8 years (1984 – 1991) was drawn. A period of eight years was chosen because the researcher considers that period to be adequate time for any relationship to exist between dividends and a certain parameter to be detected. This study was limited to quoted companies due to lack of readily available data among private companies as well as lack of time to wait for data to be made available by the private companies. His findings was that liquidity, working capital, cash flow, profits and investments were found to be the most significant factors determining dividends in public quoted companies.

Nura (2000) in his study on the Impact of Dividend Payments on shareholders wealth sought to establish whether there was a relationship between dividend paid and the share prices. He considered companies consistently quoted on the Nairobi Stock Exchange from 1997 to 2000. He used daily stock price data to compute excess stockholder returns and to examine dividend announcement for each company in the database. From the analysis presented it appeared that dividend payment had a significant impact on share prices hence shareholders wealth. The dividend payment thus can influence the firm size or the market capitalization of a firm according to the study. This can thus form a basis to determine the relationship between the DPOR and the size of the firm which can be determined as the total number of shares multiplied by the share price.

Wairimu (2002) in her empirical study on the relationship between dividend and investment decisions of firms quoted at NSE. She used information for 21 companies for the period 1981-2000 and used regression analysis to establish whether there was relationship between dividends and investment decisions. She concluded that there was relationship between dividend and investment decisions for the listed firms. Thus the DPOR can influence the firm size, with growth firms opting to pay low dividends in order to reinvest.
Omondi (2003) in his empirical study on the dividend discount model, its reliability on the valuation of common stock at the NSE, used data on share prices, market indices and DPS from NSE and predicted the share prices using a statistical model for each of the 18 companies studied. The t-test significance showed that out of the 18 companies, only three showed that difference was significant. Hence concluded that dividend discount model is not reliable in the valuation of common stock at the NSE.

Ochola (2005) carried out a study on the shareholders pressure on the firms decision to pay dividends at NSE. He collected data in form of ordinary share prices, dividends payments, DPS for the period between 1996 and 2003, 48 listed companies at the NSE were examined on price to book ratio of dividend paying firms to non-dividend paying firms were empirically tested. Further analysis confirmed that speculators identify non-payers that are likely to pay dividends, 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.

Kiio (2006) in an empirical investigation into market efficiency and the effects of cash dividend announcements on share prices of companies listed on the NSE. The researcher calculated market adjusted by and hold returns for the samples for the twenty one day event period. The results revealed that cumulative market adjusted returns to be significant for 10 days before and ten days after the announcement for dividend paying firms. This indicated that share prices are indeed responsible to cash dividends. However the dividend anticipation by the market as reflected by price adjustments before and after dividend announcement was poor most probably as a result of inadequate information with regard to both company prospect and dividend policy consequently information insufficiency automatically leads to market inefficiency.

Muindi (2006) studied the relationship between EPS and DPS of equities for companies quoted at the NSE for the years 2000-2004. Data from published financial statements was extracted and analyzed using SPSS with focus on regression model and was presented using tables, graphs and charts. His findings were that there is significant relationship between EPS and DPS. However finance and investment sector reported a negative relationship between the two variables.
Kipngetich et al (2011) carried out a study on determinants of initial public offer pricing in Kenya, and investigated determinants of Initial Public Offer (IPO) pricing in Kenya. They explored the extent to which investor sentiment, post-IPO ownership retention, firm size, board prestige and age of the firm affect IPO pricing of firms listed on Nairobi Stock Exchange between 1st January, 1994 and 31st December, 2008 in Kenya. Secondary literature was used and data was analysed using both descriptive statistics and multiple regression analysis. A sample of 13 IPOs which covered 87% of the 15 companies listed on NSE between 1st January, 1994 and 31st December, 2008. Data was collected from NSE database, company IPO prospectus and websites of investment banks. Statistical computer package STATA was used to estimate the following multiple regression:

$$P_0 = \beta_0 + \beta_1 \text{INVS} + \beta_2 \text{PIPOW} + \beta_3 \text{LnFSIZE} + \beta_4 \text{BPREST} + \beta_5 \text{LnAGE} + \varepsilon$$

, the model is used to inform the formation of the model in my study. The study concluded that variables do not significantly influence the IPO offer price at 5% significance level.

2.3.1 Literature review on shareholders dispersion

Kumar (2003) examined the possible association between ownership structure, corporate governance and firms dividend payout policy in context of an emerging market (India). The study examined the payout behavior of dividends and the association of ownership structure for Indian corporate firms over the period 1994-2000. The results consistently support the potential association between ownership structure and dividend payout policy, Though the relationship differs across different group of owners and at different level of shareholding.

Chen and Dhiaensiri (2009) using sample of firms listed on New Zealand Stock Exchange (NZSE) to determine the dividend policy relationship to ownership dispersion, Free cash flow, collateral usable assets, firms size e.t.c. They used a quantitative research design with an assumption of a linear relationship assumed between variables to facilitate the formation of a model was used. Ordinary least squares regression model was used to determine the relationship. This also informed my study with use of a model in the Kenya context. The correlation coefficient of the tested variables were calculated, and they found out that ownership dispersion is positively related to the degree of ownership. The study found a partly consistent relationship between the POR and the transaction cost and residual theory.
Al-Kuwari (2009) investigated the determinants of the dividend policy in Emerging stock Exchanges in Gulf Co-operation Council (GCC) Country stock exchanges. The study considered non-financial firms listed on the GCC country stock exchanges between the years 1999 and 2003. The model considered the impact of government ownership, free cash flow, firm size, growth rate, growth opportunity, business risk, and firm profitability on dividend payout ratios. Agency theory was investigated using a series of random effect Tobit models. The result indicated that dividend policy adopted related strongly to government ownership, firm size and firm profitability. The results indicated that the firms in which the government owned a proportion of the shares, paid higher dividends compared to the firms owned completely by the private sector. Furthermore, the results illustrated that the firms chose to pay more dividends when firm size and profitability were high. The study did not disaggregate the data according to the various sectors.

Kenneth (2009) in the study on the determinants of equity payouts concluded that the more owners a firm has, the further to the right its agency cost curve will be, and the firm will choose a higher Equity Distribution Yield, holding other factors constant. Perk consumption by owner-managers is likely to be more abusive if there is greater ownership dispersion. The study uses the natural log of market capitalization (CAP) to proxy dispersion of ownership. As a check for adequacy as a proxy, the study estimates the correlation between the total number of shareholders and CAP to be 0.71.

### 2.3.2 Literature review on Dividend policy

Joseph (2001) employing panel data methodology, studied the dividend policy of property companies quoted on the London Stock Exchange between 1986 and 1998. He concluded that the quoted property sector paid out, on average, 44% of its net earnings as dividends and similar to firms in other sectors, real estate corporations smooth their dividend payout to minimize the chance of having to reduce dividends in subsequent years. Property investment companies pay significantly higher dividends, compared to property trading companies.
Odak (2006) undertook an empirical investigation to determine the difference between dividend policies of locally owned firms and foreign owned firms (multinationals) and also to establish whether the foreign owned firms have higher dividend yields than locally owned firms. He surveyed public companies incorporated in Kenya and consistently listed on the Nairobi Stock Exchange’s both Main Investment Segment (MIMS) and alternative Investment Segment (AIMS). The firms were divided into two categories; foreign owned (1) those having 51% or more foreign ownership and control, and locally owned (2) those with 50.9% or less in foreign ownership and control, companies Act, Cap 487. He concluded that there is a difference in the dividend policies on the foreign firms and those of local firms. A general trend was reported that foreign firms have higher dividend payout ratio as well as higher dividend yield. This would signify higher returns to investors more so to the foreign owners who could repatriate profits to their home countries.

Abdulrahman (2007) carried out a research to identify the variables with an expected influence on dividend policy and on payout ratio in an emerging market. He developed and tested using 300 firms randomly selected from the Kuala Lumpur Stock Exchange. The sample of this study was a cross sectional and consisted of 300 Malaysian companies randomly selected from the Kuala Lumpur Stock Exchange (KLSE) listed in the DataStream electronic companies database (total = 646 firms). A comparison analysis revealed that cash per share has a significant positive impact not only on DPS but also on DPR. In addition to that, a t-test of mean comparisons suggests that shares with higher book values receive significantly more dividends, and that the POR is significantly higher for those shares.

2.3.3 Literature review on Firm size
Walter (1974) argues that the choice of dividend policies almost always affects the value of the firm. His model shows the importance of the relationship between the firm’s rate of return and its cost of capital in determining the dividend policy that will maximize the wealth of the share holders. His model was based on the following assumptions, internal financing, Constant return and cost of capital, 100% payout or retention, Constant earnings per share and dividends, and Infinite time.
Bitok (2004) wrote a paper on the effect of dividend policy on the value of the firms quoted at the Nairobi Stock Exchange. The objective of the study was to establish the effect of the dividend policy on the value of the firms quoted at the Nairobi stock exchange (NSE). The population of interest in this study consisted of all firms quoted at the Nairobi Stock Exchange. This study was limited to quoted companies due to lack of readily available data from the private company. The sample consisted of all the firms quoted consistently at N.S.E for a period of 6 years from 1998 – 2003. A period of 6 years was chosen because the researcher considered the period to be adequate for establishing any relationship, if it exists between dividend payout ratio and the value of the firm as reflected in the share prices. The data collected was analyzed using simple linear regression and correlation analysis. The significance of each independent variable was tested at a confidence level of 95%. The findings were that for the period 1998 to 2003, the results indicated that there is a relationship between the dividend payout ratio (DPR) and the value of the firm.

**Conclusion**

From various empirical evidence above there seem not to be a single economic rationale that can explain the dividend policy theory or DPR adopted by firms. Various scholars have also confirmed relationship or influence of different variables to dividend policy as well as the fact that dividends distributions can convey valuable information about management’s assessment of its future prospects that other means cannot communicate. Different levels of correlation between various determinants of DPR is also arrived at by various empirical evidence. Dividends reduce information asymmetry between managers and outside investors as the information can be used to assess a firm’s stock price. There is therefore need to do more research on the dividend policy of the firms and the various variables that influence or has relationship with the dividend policy, this would hence contribute more to the body of knowledge to finance especially in the developing countries and particularly in Kenya where the development of the stock exchange is relatively low compared to developed countries. Also different firms are at different levels of growth hence this would support the managers and shareholders to meet their interests. This research will provide more evidence in the Kenyan context whether the dispersion of shareholders and size of the firm influences the DPR or dividend policy adopted by companies.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

The research methodology refer to the research design which was used, population, Sample, Data collection as well as data analysis. The research targeted all listed companies at the NSE between 2005 and 2010 which is assumed to be long enough to address the research objectives. The research design adopted addresses the purpose of the research which is to determine the payout policies or levels adopted by various companies in Kenya depending on their size and shareholders dispersion, data was collected from the published financial statements as provided by the NSE secretariat. The data was analyzed and conclusions made depending on the outcome of the analysis.

3.2 Research Design

Quantitative research design was used in the study, this is because of the numerical data which was gathered from the financial statements of the listed companies at the NSE. This research design is considered as it is appropriate in determining the relationship between the three variables in the research. As a result, a relationship for the three variables was determined from the secondary data collected.

3.3 Data Collection

Secondary data was collected from the NSE secretariat. The required information was derived from the financial statements according to the NSE Handbook. The data was initially captured and summarized in Microsoft excel and latter posted to SPSS version 19 for analysis.

The total population for the study was 55 according to the listed firms at the NSE. However a sample of 31 firms listed at the NSE was considered, as these are the firms which met the conditions for inclusion in the sample, as they were consistently listed in the NSE for the period between 2005 and 2010. The Firms not included in the sample had not paid dividends for the period and were not considered, some had negative POR or they were missing some of the data required for this study.
The market capitalization of the sampled firms was recorded and averaged then the natural logarithm of the average was calculated. This was to correct for scale effects by treating as equal the same percentage variation rather than the same numerical variation.

The payout ratio for the period of the study was also captured and averaged. The shareholders dispersion was also calculated for all the companies as the number of shareholders divided by total outstanding shares in 2010 for all the companies sampled.

3.4 Data Analysis

The data captured was analyzed using statistical package for social sciences (SPSS) version 19. A regression analysis was used to show the relationship between the dependent and the independent variables and establish if there is any relationship. The data is also presented graphically using trend analysis to depict the trend over time for the various sectors. This is because this can be easily understood by the investors and other interest groups.

3.4.1 Measurement of variables

3.4.1.1 Shareholders dispersion

Ownership dispersion was calculated as the number of shareholders divided by total outstanding shares in 2010. According to the agency theory of dividends, the more dispersed the ownership structure, the more severe the agency problems and thus the need for monitoring managers also increases. If dividends can act as a monitoring mechanism by reducing cash available for managers’ perquisite consumption, a positive relationship between DPR and shareholders dispersion is expected.

3.4.1.2 Size of the firm

The size of the firm refers to the company’s market capitalization (Al-Kuwari 2009), or the aggregate value of a company or stock. It is obtained by multiplying the number of shares outstanding by their current price per share. According to Chen and Dhiensiri (2009) larger firms tend to be more mature and thus have easier access to the capital markets, which reduces their dependence on internally generated funding and allows for higher dividend pay-out ratios. Firms
that have low transaction costs of equity or debt issuance may be more inclined to distribute cash dividends than firms that have high transaction costs.

3.4.1.3 Dividend Payout Ratio

Dividend payout ratio was computed as the arithmetic average of each of a firm's payout ratios over the five year period from 2005 to 2009. The dividend pay-out ratio (DPR) in this study is calculated as the ratio of dividend to operating profit. Dividend here is the annual dividend and operating profit is profit before interest and tax. This definition of pay-out ratio was also used by Chen and Dhiensiri (2009).

A linear relationship is assumed, to indicate the relationship between the three variables. With the Payout ratio being the dependent variable, while the firms capitalization and shareholders dispersion being the independent variables.

A linear relationship is assumed to facilitate formation of a model as below. The model has been used previously by Chen and Dhiensiri (2009) and Kipngetich et al (2011).

\[
POR_i = \beta_0 + \beta_1 \text{DISPERS} + \beta_2 \text{LnFSIZE} + \varepsilon_i
\]

Where;

- \(i = 1, \ldots, n\); number of firms
- \(\beta_0\) = Constant term or intercept term
- \(\text{DISPERS}\) = Shareholders dispersion which is calculated as the number of shareholders divided by total outstanding shares.
- \(\beta_1\) = Coefficient to be estimated
- \(\beta_2\) = Coefficient to be estimated
- \(\text{LnFSIZE}\) = Size of the firm which is measured as the natural log of the six-year (2005-2010) average of firms market capitalization.
- \(\varepsilon_i\) = A disturbance term satisfying Ordinary Least Squares Regression (OLS) assumptions.
- \(\text{POR}\) = Represents the firm's dividend payout ratio.
CHAPTER FOUR

4.0 DATA ANALYSIS AND PRESENTATION

4.1 Introduction

The data analysis and interpretation provides in depth analysis of the research findings and the correlation between the various variables. Although the population was 55 listed firms 31 companies could be included in the sample. Among the remaining 24 firms two firms had been suspended i.e. Hutchings Biemer ltd and Uchumi supermarket others had not paid dividends for most of the years while others had negative DPOR. The data was received from the NSE secretariat and posted to the SPSS version 19. Other information regarding the number of shareholders was extracted from the Company’s financial statements and the shareholders dispersion calculated. The data captured was from 2005 to 2010 which is long enough to make conclusions.

Parametric tests is conducted and the statistical techniques that will be used is the coefficient of correlation. This tells us the nature of the relationship between the dependent and independent variable. This can assume any value from -1.00 to + 1.00. If there is absolutely no relationship then the two sets of variables will be zero. This provides measures of how random variables are associated in a sample, as well as determining the strength of the linear relationship between the variables.

4.2 Variables Analysis and data analysis

Capitalization of listed firms

This study groups the sampled firms into high capitalization, medium capitalization and low capitalization. Out of the sampled firms 45.2% had medium market capitalization, 41.9% High market capitalization and 12.9% Low market capitalization. The low capitalization was taken as the firms with less than Ksh’s 2.5 Million, Medium capitalization as firms between Ksh’s 2.5 and Ksh’s 17.5 Million and High capitalization as those above Ksh’s 17.5 million. This was done so as to have an understanding of the level of capitalization of the sampled firms. Most of the firms which were not sampled were in the group of low capitalization.
Chart 1: Firms Capitalization

High Capitalization 42%
Midium Capitalization 45%
Low Capitalization 13%

Nairobi Stock Exchange Sectors
Nairobi Stock Exchange Main investment market categorizes listed firms into sectors i.e. Agriculture, Commercial and Services, Financial and Investment, industrial and Allied. NSE also has an Alternative investment market which has less regulations and listing requirement. In my sample Industrial and Allied sector had the highest number of firms at 35.5%, Financial and Investment with 29%, followed by Commercial and services with 25.8% and Agriculture 3.2%.

Chart 2: Nairobi Stock Exchange Sectors
NSE Market Category
There are three investment market segments at the NSE namely; Main Investment Market Segment (MIMS); Alternative Market Segment (AIMS); and the Fixed Income securities Market Segment (FISMS). The Main investment market had the highest number of firms at 94% and Alternative Investment Market had 6% sampled in this study. Most of the firms in the Alternative Investment market did not pay dividends over the period of this study while some of the financial statements indicated negative POR, hence they did not qualify to be included in the sample. This may be due to less regulations and requirement applicable to the companies listed under the AIM.

Chart 3: NSE Market Segments

Chart 4 – Temporal Trend on the Firms capitalization and the Payout ratio for Agriculture Sector

The Agriculture sector comprises the firms which are in the Agriculture industry. Currently there are three firms listed under this sector, i.e. Rea vipingo, Sasini Tea and Coffee Ltd and Kakuzi Ltd.
Only one firm could be considered under the Agriculture sector as this is the only firm which consistently paid dividends over the period of the study. The trend indicated a decline on the firms capitalization. The DPOR was also stable during the first three years, increased in the fourth year and the year 2010. The DPOR had a major decline in 2009, which is also reflected in decline in the market capitalization.

**Chart 5 – Temporal Trend on the Firms capitalization and the Payout ratio for Finance and Investment Sector**
There was a decline in the firms capitalization as well as the payout ratio between 2005 to 2009, this downward trend however reversed in 2010 with increased capitalization as well as payout ratio. This is an indication that the market capitalization had a relationship with the DPOR under the sector. The data was only for one firm, hence it may not be a true representation of the Agriculture sector.

**Chart 6 – Temporal Trend on the Firms capitalization and the Payout ratio for Industrial and Allied Sector**

The firms capitalization under the Industrial and allied sector had an overall increment except in 2007 and 2009, The sharp increment in 2006 could be attributed to the listing of the Kengen Ltd at the NSE. The payout ratio declined over the period of this study, perhaps indicating that most of the firms retained the profits for investment in growth opportunities.

**Chart 7 – Temporal Trend on the Firms capitalization and the Payout ratio for Commercial and Services Sector**

The capitalization of the firms under the commercial and services sector had increased capitalization over the period especially due to the listing of Scangroup Ltd and Safaricom Ltd during in 2006 and 2008 respectively. Although the capitalization increased over the period, the payout ratio decreased, However a slight increase was recorded in 2010. This is an indication
that the firms reinvested the earnings made. Thus the shareholders could gain through capital gain.

Chart 8 – Temporal Trend on the Firms capitalization and the Payout ratio for Alternative Market investment
The Market capitalization increased substantially especially during 2010, however the dividend payout ratio decreased over the period of the study. This is an indication that some firms paid low dividends and reinvested most of the earnings. E.g Wiliamson tea Kenya had POR as 6.25% down from 49.62% in 2005.
The table below reports the correlation coefficient of the tested variables, i.e. Dividend payout ratio, firm size and the shareholders spread, as well as capitalization grouped into the level of capitalization whether high, medium or low.

<table>
<thead>
<tr>
<th>Correlations</th>
<th>Market Capitalization</th>
<th>Shareholders Dispersion</th>
<th>Dividends Payout Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Capitalization</td>
<td>1</td>
<td>-.114</td>
<td>.076</td>
</tr>
<tr>
<td>Shareholders Dispersion</td>
<td>-.114</td>
<td>1</td>
<td>-.225</td>
</tr>
<tr>
<td>Dividends Payout Ratio</td>
<td>.076</td>
<td>-.225</td>
<td>1</td>
</tr>
</tbody>
</table>

The table indicates that there is low correlation between the various variables the maximum being 0.076, which is between the market capitalization and the shareholders dispersion, indicating that as market capitalization increases market dispersion also increases. This supports the agency cost theory that as firms raises capital through the NSE, there is need to raise their dividend payout. There is also a negative correlation coefficient between the POR and the
shareholders dispersion. This indicates that higher the shareholders dispersion does not necessarily support high POR.

**Table 2 – Relationship between market capitalization and the dividends payout ratio**

The market capitalization and dividends payout ratio is not statistically significant at 95% confidence interval, indicating a 0.684 relationship. This means a high market capitalization does not promise high returns in terms of dividend payout. This is evidenced by some firms which have low market capitalization having higher payout ratio than other companies which have high market capitalization. E.g. Kengen Ltd which has a high had an average of 38.10 payout ratio compared to Limuru Tea Co. Ltd which had 90.90 DPOR.

<table>
<thead>
<tr>
<th>Coefficients</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>95.0% Confidence Interval for B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
</tr>
<tr>
<td>(Constant)</td>
<td>21.149</td>
<td>59.159</td>
<td>.357</td>
</tr>
<tr>
<td>Market Capitalization</td>
<td>1.054</td>
<td>2.560</td>
<td>.076</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Dividends Payout Ratio

**Table 3 – Relationship between Shareholders dispersion and the dividends payout ratio.**

There is no statistically significant relationship between the shareholders dispersion and the dividends payout ratio, at 95% confidence interval as it is 0.227, hence the relationship is higher than the relationship between the market capitalization and the POR. This therefore weakly support the agency theory of dividends as the number of shareholders increase, the POR is expected to increase. This shows dividends cannot be used as monitoring mechanism in the firms.
listed at the NSE which have the effect of reducing cash available for managers perquisite consumption.

**Coefficients**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>95.0% Confidence Interval for B</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
</tr>
<tr>
<td>(Constant)</td>
<td>47.614</td>
<td>4.344</td>
<td>10.961</td>
</tr>
<tr>
<td>Shareholders Dispersion</td>
<td>-15595.338</td>
<td>12631.486</td>
<td>-.223</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Dividends Payout Ratio

**Table 4 – Relationship between Market capitalization and Shareholders dispersion**

The market capitalization of firms seems to have statistically insignificant at 95% confidence interval, with weak relationship at 0.543. This is an indication that high capitalization in NSE listed firms does not guarantee high DPOR.

**Coefficients**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>95.0% Confidence Interval for B</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
</tr>
<tr>
<td>(Constant)</td>
<td>23.132</td>
<td>.320</td>
<td>72.240</td>
</tr>
<tr>
<td>Shareholders Dispersion</td>
<td>-573.409</td>
<td>931.106</td>
<td>-.114</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Market Capitalization
Table 5 – Relationship between the POR, Market capitalization and the shareholders dispersion

Both the market capitalization and the shareholders dispersion indicates a low relationship with the dividends payout ratio at 0.783 and 0.250 significance level. This indicates that the shareholders dispersion has stronger co-relationship with the dividend payout than the firm’s market capitalization. This therefore weakly supports the assertion that firms value is an increasing function of the dividends POR, hence shareholders dispersion contributes more in determining the DPOR.

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>95.0% Confidence Interval for B</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
</tr>
<tr>
<td>(Constant)</td>
<td></td>
<td></td>
<td>.525</td>
</tr>
<tr>
<td>Shareholders Dispersion</td>
<td>-15187.187</td>
<td>12921.03</td>
<td>-.218</td>
</tr>
<tr>
<td>Market Capitalization</td>
<td>.712</td>
<td>2.560</td>
<td>.051</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Dividends Payout Ratio

Regression Results

From the SPSS version 19, the regression analysis was estimated as:-

\[ \text{POR}_i = \beta_0 + \beta_1 \text{DISPERS} + \beta_2 \ln\text{FSIZE} + \epsilon_i \]

The fitted regression model is presented as follows:-

\[ \text{POR} = 31.149 + 0.712\ln\text{FSIZE} - 15,268.2 \text{DISPERS} \]

\[ (0.604) \quad (0.783) \quad (0.250) \]

The coefficients, P-values are provided in the parenthesis. All the model coefficients, the \( p \)-values were greater that .05 (i.e. \( p > .05 \)) implying that the variables tested do no significantly influence the DPOR at 95% confidence interval.

Further, R-square = 23.00%, implying that the firm capitalization and shareholders dispersion accounted for only 23.00% of the dependent variable. The variables studied indicate that they do
not significantly determine the dependent variable, hence other variables and determinants are important in setting a firms DPOR. Based on the findings of the study, high capitalized firms are unable to distinguish themselves from low capitalized firms as far as determining the DPOR. The regression output showed R-square value of 23.00%. implying that there are other factors that contribute to the remaining 77.00% in determining DPOR of firms listed at the NSE.

4.3 Summary and Interpretation of findings

4.3.1 Summary
The findings does not strongly support the various dividend payout theories which include agency theory of dividends, dividends signaling theory, transaction cost and residual theory of dividends. This is in contrast to other studies done in developed countries which indicated strong support to the agency theory and partially transaction cost and residual dividend theory. Chen and Dhiensiri (2009) in their study on determinants of dividend policy, evidence from New Zealand, indicated strong support to the agency cost theory and partially support transaction cost of residual dividend theory. The study concluded that DPOR is positively related to the degree of ownership dispersion. The relationship between the various variables indicate weak relationship as indicated in P-values > .05. The findings also confirm varied DPOR among different firms listed at the NSE.

4.3.2 Interpretation of findings
The results of the study indicates that the industrial and allied sector of the NSE on average paid higher dividends over the period of the study than other sectors at 53.82% DPOR. The sector also registered high growth in market capitalization of the firms. However there was a decline in the DPOR in 2010, most of the firms in this sector are stable and are market leaders in the various industries, indicating low market opportunities to invest. The commercial and services sector registered the lowest average DPOR, although the sector registered the highest capitalization rate of growth over the period of the study. This indicates that most of the earnings were retained for reinvestments hence support to the increased market capitalization.
The co-relationship between the three variables on regression using SPSS version 19 provides a statistically insignificant relationship. The relationship between firms market capitalization and the firms dividend payout ratio is provides 0.684 relationship. This means that the market capitalization of firms may not affect the dividend policy of a firm or the level of dividend declared. Hence low capitalized firm may end up paying higher dividends than high capitalized firms, e.g. Rea Vipingo Ltd had an average of 47% DPOR. Other firms with high level of market capitalization e.g. Safaricom Ltd had an average of 35% DPOR.

The market capitalization of firms and the shareholders dispersion also provides weak relationship at .543. This suggests that firms with high capitalization does not necessarily have high shareholders dispersion, e.g. Bamburi cement Ltd has a low shareholders dispersion although the market capitalization is low.

When the data is regressed with dividends payout ratio as the dependent variable and the shareholders dispersion and the market capitalization as the independent variables, an insignificant relationship is also evidenced at .250 and .783 respectively at 95% confidence interval. Hence this suggests a stronger relationship between the dividend payout ratio and the shareholders dispersion. Thus this supports assertion that dividend payments may serve as means of monitoring management performance hence the higher the shareholders dispersion the higher the expectation for more dividends. This is consistent with the agency theory of dividends as advanced by Jansen and Meckling (1976).

The firms whose market capitalization decreased over the period had also the DPOR decline. This supports the assertion that reduced market capitalization indicates reduced performance of the various firms, as well as the profitability, hence reduced DPOR. This is evidenced in the case of Kengen Ltd, Pan African Insurance Holdings Co. Ltd, Total Kenya Ltd and Williamson Tea. All these firms had reduced market capitalization as well as the DPOR. Conversely increased market capitalization did not translate to increased DPOR for some of the firms e.g. Scangroup Ltd. This is an indication that the reinvestment by the firm was high, as this is a growth company and has expansion opportunities, hence need for more investment.
According to the regression model estimated, the independent variables i.e. Firms size and the shareholders dispersion do not significantly determine the firms dividend payout ratio. The P-values are > .05 at 95% confidence interval, hence indicating that the factors are not statistically significant to determine the DPOR for the listed firm in NSE. The $R^2$ is estimated to be 23% indicating that the firms size and shareholders dispersion contribute 23%, while other factors could be contributing 77% towards determining firms DPOR.
CHAPTER FIVE

5.0 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

This study was informed by the different dividend payout ratios adopted by various companies in Kenya. It is not unusual for high capitalized firms to pay lower dividends than firms with low capitalization. This can be noted in the case of Safaricom Ltd which has as high market capitalization paying lower dividends than Rea Vipingo Ltd which has low market capitalization level.

The objective of the study was thus to establish the relationship between the DPOR, market capitalization of firms and the shareholders dispersion for the companies listed at the NSE. The study also sought to establish the trend of the dividend policies of various companies. The relevant dividend payment theories i.e. the Agency theory of dividend, dividends signaling, Transaction cost and residual theory of dividends were reviewed. Scholarly studies on dividends from international journal as well as the local studies was done on the subject. The various studies still provided conflicting conclusions on the subject of the dividend theory and co-relationship of the various determinants of payout ratio. A number of the studies supported the various theories while others concluded weak or no support for the theories.

Secondary data for all the 55 listed firms was collected from the NSE secretariat, internet and the company’s financial statements. The data was captured in Excel and the data was analyzed so as to have the relevant figures for creating the data set in SPSS version 19. The data summarized from the firm’s financial statements included the dividend payout ratio, market capitalization, number of shareholders and the total shares in issue. The study sample was determined to be 31 firms, because two firms had been suspended, others did not declare dividends consistently while others had negative dividends reflected in their financial statements. The average dividend payout ratio was calculated from Excel for the 31 firms as well as the average market capitalization over the period, and the natural log ascertained in order to correct for scale effects. The shareholders dispersion was calculated as the number of shareholders divided by the total shares issued by the firm.
The various variables i.e. Dividend payout ratio, firms market capitalization and the shareholders dispersion were correlated to ascertain their relationship, and whether the independent variables could influence the depended variable. The findings indicated low relationship between the variables, which is inconsistent with other studies especially from developed countries. The findings are presented in tables and graphs which are easy to interpret and have the interested stakeholders appreciate the results and use them appropriately for decision making.

5.2 Conclusions
The study findings support the agency dividends theory, although the relationship was not statistically significant. The Dividend payout was related to the shareholders dispersion (Measured by the number of shareholders divided by total outstanding shares), the higher the dividend payout ratio. This is consistent with the agency theory and supports Rozeff’s (1982) hypothesis that stockholders seek greater dividend pay-out as they perceive their level of control to diminish.

The findings weakly supported relationship between the firms capitalization and the dividend pay-out ratio. Some firms with high capitalization had low DPOR compared to some firms with Low capitalization. Although it is expected that the growth firms to pay low dividends, this is not evidenced in this study as some firms with low capitalization paid higher dividends than firms with high capitalization. The results deviates from the conclusion that the value of the firm should be an increasing function of the dividend according to Bhattacharyya (1979 ). Increase in market capitalization of the firms did not also guarantee increased DPOR as exemplified in the commercial and services sector.

The results of the regression model established that the P-values calculated are > .05 at 95% confidence interval, hence indicating that the firms market capitalization and the shareholders dispersion are not statistically significant in determining the DPOR for the listed firms in NSE. The co-efficient of determinant $R^2$ is estimated to be 23% indicating that the firms size and
shareholders dispersion contribute 23%, while other parameters may contribute 77% towards determining firms DPOR.

The study is therefore to some extent consistent with the agency theory of dividend payout theory, as the shareholders seek greater dividend pay-out as they perceive their level of control of the firm to diminish as the number increase. The study does not thus strongly support the dividend signaling theory where the firm size is an increasing function of the dividend payout ratio adopted by the firm.

5.3 Policy Recommendations

5.3.1 Nairobi Stock Exchange Sectors Classification

A sector is a group of securities or a distinct subset of a market place, society, market, or economy whose elements share particular widespread characteristics e.g. supplying the identical varieties of items or solutions. Hence a sector consists of businesses in closely related businesses, Stocks inside of a sector have a tendency to move together simply because firms within the exact same industry group are affected in comparable techniques by market and financial conditions, Lowell (2011). This is not the case for the NSE as dissimilar securities of companies are grouped together. This makes it difficult to generalize a finding for a given sector as the firms are affected differently.

The existing configuration of the NSE sectors groups unrelated firms inside the exact same sector heading. For instance Kenya Airways Ltd., Safaricom Ltd. and Nation Media Ltd. have been grouped collectively below the Commercial and Services sector nevertheless these firms provide dissimilar goods or services and represent unrelated organizations. Their stocks have very small correlation. For a better comparison of sector performance, these stocks would need to be grouped beneath different sector categories as present. Bamburi Cement Ltd., East African Breweries Ltd., and Kenya Power & Lighting Co. Ltd. which have all been grouped beneath the sector heading Industrial and Allied, hence these firms are unrelated with their stocks have quite small correlation. As a outcome the present sector classification of stocks by the NSE does
not let an accurate analysis of sector performance due to this inclusion of uncorrelated stocks inside of the exact same sector.

To get a clearer assessment of sector and stock performance in terms of dividend POR on the NSE the constituents of the NSE it is imperative to have the firms reclassified into much more thorough and logical sector categories and the performance of identified sectors and sub-sectors.

5.3.2 Dividends Declaration
The directors are entitled to proposing dividends, subject to approval by the shareholders. This provides little chance to the shareholders to participate in setting of the dividends. Various companies also have varied DPOR in different years, hence this causes uncertainty to the shareholders who would like to invest to earn dividends and not capital gains. A guide or regulation on the level of variation of DPOR could be provided to the firms so as to guide them appropriately and also inform the investors in their planning. Perhaps increased market capitalization could be ensured to relate positively with the DPOR. Although it is a challenge to determine the optimal dividend quantitatively, factors leading to a particular dividend policy could be determined.

5.3.3 Listing at the NSE
The number of listed firms at the NSE has remained largely low for many years, this is an indication that the regulations or requirement may be highly stringent for the small firms especially the local firms, hence inability to meet the requirements. This is evinced by the small number of local firms which are listed as most of the listed firms have got substantial foreign ownership. There is therefore need to review the listing requirements or have a separate category for the SMEs to raise capital through the NSE.

5.4 Limitations of the study
The study considered only the firms which are listed at the NSE, however many of the registered companies in Kenya are not listed. This was due to availability of information which would be required for the research. The listed firms have more stringent regulations and requirements than the companies which are not listed.
The time frame for the research was also limited, hence data could also be sourced from the primary source. I recommend that Primary data could also be gathered especially on the shareholders so as to enrich the study. This would capture the shareholders intention of investment decisions and the reasons why they would prefer some investing in some securities than others.

Several companies did not have all the required information, or did not declare dividends in some years, hence these could not be included in the sample, this was mostly common in the Agriculture sector as well as the Alternative market segment. Lack of adequate data results to the findings not being able to be generalized to all the listed firms in the NSE or the sector.

The study findings can only represent sectors according to the NSE grouping of companies according to the design of the study. The groups or sectors have companies from different industries thus they are affected differently by different market factors, hence the results cannot be generalized for specific industries.

5.5 Suggestions for further studies
This study had two independent variables which may influence the DPOR, further research need to be done including other variables which affect dividend policy of firms listed at the NSE. These variables could include the governance structure of firms, Insider ownership, Growth rate of the firms e.t.c.

The study focused on the firms listed at the NSE, however this could be extended to firms which are not listed at the NSE. This would determine the dividend payout ratios which are adopted by companies not listed at the NSE, or would also find out the forms of dividend payments by the firms which are not listed at the NSE.

The study did not compare the results with other stock exchanges which are at the same level of growth as well as more advanced economies. Further study could be done and separate the various firms according to their relevant industries. The results thus would be reflective of certain industries in the Kenya market. The regulations and requirements in the various industries
are different hence if the research is organized to reflect the different industries practices. Companies under the alternative market investment can also be spread to the sectors they would belong. E.g. Limuru Tea Co. Ltd and Williamson Tea Kenya Ltd would be grouped under Agriculture.
REFERENCES


Kumar J. (2003), “Determinants of dividend payout policy in India”, Indira Gandhi Institute of Development Research,


Litzenberger R. and Ramaswamy K., (1982), “The effects of dividends on common stock Prices Tax effects or information effects” The journal of finance, Vol. 37, No. 2


Nairobi Stock Exchange website” http://www.nse.co.ke/newsite/inner.asp?cat=mm”


APPENDICES

Appendix I: Listed Companies at Nairobi Stock Exchange

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.
7. Pan Africa Insurance Holdings Co. Ltd
10. Standard Chartered Bank Ltd.
11. NIC Bank Ltd.
12. Equity Bank Ltd.
13. Olympia Capital Holdings Ltd
15. Kenya Re-Insurance Ltd.

**Industrial and Allied**

1. Athi River Mining Ltd.
2. BOC Kenya Ltd.
4. Carbacid Investments Ltd.
5. E.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. Crownberger (K) Ltd.
13. E.A Portland Cement Co. Ltd.
15. Total Kenya Ltd.
16. Eveready East Africa Ltd.
17. Kengen Ltd.
Alternative Investments Market

1. A.Baumann & Co.Ltd
2. City Trust Ltd
3. Eaagads Ltd
4. Express Ltd
5. Williamson Tea Kenya Ltd
6. Kenya Orchards Ltd
7. Kapchorua Tea Co. Ltd
8. Limuru Tea Co. Ltd
Appendix II: Sampled Firms

<table>
<thead>
<tr>
<th>Name of Firm</th>
<th>Capitalization Ksh's</th>
<th>LN of Capitalization</th>
<th>Capitalization Level</th>
<th>Av. P.O.R</th>
<th>Shareholders Dispersion</th>
</tr>
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<td><strong>Agriculture</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 Rea Vipingo Ltd.</td>
<td>1,115,500,000</td>
<td>20.83</td>
<td>Low</td>
<td>47.50</td>
<td>0.0001049</td>
</tr>
<tr>
<td><strong>Commercial and Services</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 Access Kenya Group</td>
<td>2,518,361,581</td>
<td>21.65</td>
<td>Mid</td>
<td>37.03</td>
<td>0.0001422</td>
</tr>
<tr>
<td>3 Car &amp; General Ltd.</td>
<td>984,944,691</td>
<td>20.71</td>
<td>Low</td>
<td>8.20</td>
<td>0.0000391</td>
</tr>
<tr>
<td>4 Kenya Airways Ltd.</td>
<td>27,369,951,406</td>
<td>24.03</td>
<td>High</td>
<td>19.82</td>
<td>0.0001625</td>
</tr>
<tr>
<td>5 CMC Holdings Ltd.</td>
<td>6,647,338,869</td>
<td>22.62</td>
<td>Mid</td>
<td>18.42</td>
<td>0.0018359</td>
</tr>
<tr>
<td>6 Nation Media Group Ltd.</td>
<td>18,741,143,477</td>
<td>23.65</td>
<td>High</td>
<td>70.10</td>
<td>0.0000717</td>
</tr>
<tr>
<td>7 TPS (Serena) Ltd.</td>
<td>6,762,353,797</td>
<td>22.63</td>
<td>Mid</td>
<td>55.52</td>
<td>0.0000647</td>
</tr>
<tr>
<td>8 Safaricom Ltd.</td>
<td>162,000,000,000</td>
<td>25.81</td>
<td>High</td>
<td>35.07</td>
<td>0.0196841</td>
</tr>
<tr>
<td><strong>Finance and Investment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10 Barclays Bank of Kenya Ltd.</td>
<td>138,960,429,333</td>
<td>25.66</td>
<td>High</td>
<td>54.73</td>
<td>0.0000445</td>
</tr>
<tr>
<td>11 Kenya Commercial Bank Ltd.</td>
<td>48,215,795,539</td>
<td>24.60</td>
<td>High</td>
<td>52.51</td>
<td>0.0000569</td>
</tr>
<tr>
<td>12 Pan Africa Insurance Holdings Co. Ltd</td>
<td>3,228,000,000</td>
<td>21.90</td>
<td>Mid</td>
<td>45.46</td>
<td>0.0000541</td>
</tr>
<tr>
<td>13 Diamond Trust Bank of Kenya Ltd.</td>
<td>12,355,885,040</td>
<td>23.24</td>
<td>Mid</td>
<td>23.08</td>
<td>0.0000687</td>
</tr>
<tr>
<td>14 Jubilee Insurance Co. Ltd</td>
<td>7,336,500,000</td>
<td>22.72</td>
<td>Mid</td>
<td>24.39</td>
<td>0.0001256</td>
</tr>
<tr>
<td>15 Standard Chartered Bank Ltd.</td>
<td>51,824,977,137</td>
<td>24.67</td>
<td>High</td>
<td>79.00</td>
<td>0.0001198</td>
</tr>
<tr>
<td>16 NIC Bank Ltd.</td>
<td>11,781,517,201</td>
<td>23.19</td>
<td>Mid</td>
<td>32.35</td>
<td>0.0000703</td>
</tr>
<tr>
<td>17 Equity Bank Ltd.</td>
<td>56,854,593,855</td>
<td>24.76</td>
<td>High</td>
<td>33.46</td>
<td>0.000076</td>
</tr>
<tr>
<td>18 Kenya Re-Insurance Ltd.</td>
<td>7,867,500,000</td>
<td>22.79</td>
<td>Mid</td>
<td>20.38</td>
<td>0.0000138</td>
</tr>
<tr>
<td><strong>Industrial and Allied</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>19 Athi River Mining Ltd.</td>
<td>9,781,877,083</td>
<td>23.00</td>
<td>Mid</td>
<td>28.16</td>
<td>0.0000576</td>
</tr>
<tr>
<td>20 BOC Kenya Ltd.</td>
<td>5,159,590,317</td>
<td>22.36</td>
<td>Mid</td>
<td>64.41</td>
<td>0.0002559</td>
</tr>
<tr>
<td>21 British American Tobacco Kenya Ltd</td>
<td>18,650,000,000</td>
<td>23.65</td>
<td>High</td>
<td>97.96</td>
<td>0.0000551</td>
</tr>
<tr>
<td>22 E.A. Cables Ltd.</td>
<td>5,634,354,167</td>
<td>22.45</td>
<td>Mid</td>
<td>44.04</td>
<td>0.0000816</td>
</tr>
<tr>
<td>23 E.A. Breweries Ltd.</td>
<td>117,737,515,227</td>
<td>25.49</td>
<td>High</td>
<td>68.98</td>
<td>0.0000351</td>
</tr>
<tr>
<td>24 Mumias Sugar Company Ltd.</td>
<td>17,658,750,000</td>
<td>23.59</td>
<td>High</td>
<td>50.00</td>
<td>0.0000917</td>
</tr>
<tr>
<td>25 Bamburi Cement Ltd.</td>
<td>64,062,312,038</td>
<td>24.88</td>
<td>High</td>
<td>67.02</td>
<td>0.0000808</td>
</tr>
<tr>
<td>26 Crown berger (K) Ltd.</td>
<td>846,263,000</td>
<td>20.56</td>
<td>Low</td>
<td>49.93</td>
<td>0.0001656</td>
</tr>
<tr>
<td>27 Kenya Power &amp; Lighting Co. Ltd.</td>
<td>13,821,024,000</td>
<td>23.35</td>
<td>Mid</td>
<td>14.17</td>
<td>0.0000988</td>
</tr>
<tr>
<td>28 Total Kenya Ltd.</td>
<td>5,796,792,153</td>
<td>22.48</td>
<td>Mid</td>
<td>61.95</td>
<td>0.0000209</td>
</tr>
<tr>
<td>29 Kengen Ltd.</td>
<td>53,376,216,152</td>
<td>24.70</td>
<td>High</td>
<td>38.12</td>
<td>0.0000963</td>
</tr>
<tr>
<td><strong>Alternative Investments Market</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>30 Williamson Tea Kenya Ltd</td>
<td>973,410,907</td>
<td>20.70</td>
<td>Low</td>
<td>29.60</td>
<td>0.0001480</td>
</tr>
<tr>
<td>31 Limuru Tea Co. Ltd</td>
<td>236,400,000</td>
<td>19.28</td>
<td>Low</td>
<td>90.90</td>
<td>0.0000833</td>
</tr>
</tbody>
</table>
Appendix III: Introductory Letter from University of Nairobi

Date…………………………

To Whom It May Concern

The bearer of this Letter Felix Kyalo Mutiso, registration No. D61/70541/2009 Is a Master of Business Administration (MBA) student at the University of Nairobi Finance specialization doing a research project on the relationship between the shareholders dispersion, size of firm the company’s dividend policy as part of his course assessment. The information and any data collected will be handled confidentially and shall only be used for the sole purpose of this research.

The student will be pleased to share a copy of the final research work with you on request.

Thank for your invaluable support.

Yours Sincerely,

Co-ordinator MBA Program
University of Nairobi